APRIL 1957

The Mortgage Banker

MBA at the Hearings on the Hill: At the Subcommittee on Housing of the House Banking and Currency Committee, the MBA viewpoint is set forth. Below, MBA General Counsel Samuel E. Neel, Robert Tharpe of Atlanta, Chairman of the MBA Legislative Committee and MBA President John F. Austin, Jr. For further details, see page 22.

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

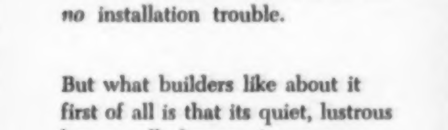
in this issue

FRAZAR WILDE ON THE POSITION OF THE U.S. ECONOMY ★ MARCUS NADLER ON BUSINESS PROSPECTS

The TRULY TROUBLE-FREE floor

It's impossible, physically, for Higgins Block to expand or contract – and that means *no* maintenance trouble for as long as the floor lasts, and it lasts longer than most buildings. It's prefinished to save a week or more of job time, made to lay quickly and easily over ANY subfloor, and to be walked on as soon as it's down – and that means *no* installation trouble.

But what builders like about it first of all is that its quiet, lustrous luxury *sells houses.* As soon as you open the door, the warm beauty of a Higgins floor tells the customer that this builder cared about quality materials. Higgins Block adds dollars of value to a house for pennies of cost – and *that* means trouble-free sales.



THE WOOD MADE WORLD FAMOUS IN HIGGINS HARDWOOD-HULLED FIGHTING BOATS

DARK TONES: For use alone or in combination with the natural blocks shown, Higgins Block is also made in the rich dark tone many decorators demand.

UNFINISHED: For those who want the "custom" look of on-the-job finishing, Higgins Block is also available without factory prefinish.

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BONDED HARDWOOD BLOCK FLOORS

HIGGINS INDUSTRIES INC. OF NEW ORLEANS
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PIONEERS AND WORLD'S LARGEST MANUFACTURERS OF LAMINATED HARDWOOD BLOCK FLOORING

FRIGIDAIRE SHEER LOOK

built-in, blend-in styling...

...for happier purchasers, "stay-put" home owners!

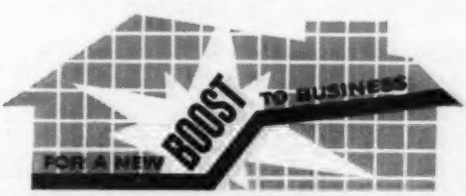
Where is the first place Mrs. Prospective Home Buyer heads when visiting a model home? Chances are, she beelines for the kitchen. Why? Because she has her heart set on having the kitchen of her dreams and because the kitchen is usually the one room that most influences her decision to buy. This, more than any other, is "her" room and it must include more working space, storage space and living space *plus* years-ahead convenience features—if she is to be sold and stay sold.

New Frigidaire "Sheer Look" design, in free-standing and built-in kitchen and laundry appliances, is her assurance (and yours) of a color-bright, beauty-right kitchen that will delight her heart for years—and retain the marketability of the home.

To make every corner pay dividends—incorporate all-new Frigidaire built-ins and matching squared-up free-standing major home appliances that fit flush with standard wood or steel cabinets available anywhere.

Financed under a real estate mortgage . . . or otherwise—Frigidaire "Sheer Look" appliances with built-in, blend-in styling—make for happier purchasers, more "stay-put" home owners.

For more information on the *sheer sales appeal* of Frigidaire "Sheer Look" Appliances *and* the complete line of Frigidaire gas and oil furnaces and air conditioning units for "stay-sold" Full-Home Comfort, write or call your nearest Frigidaire Sales Corporation Headquarters, Distributor's Office, or Dealer.



REFRIGERATORS • ELECTRIC RANGES • BUILT-IN COOKING TOPS • WALL OVENS • FOLD-BACK SURFACE UNITS • DISHWASHERS • FOOD FREEZERS • ELECTRIC WATER HEATERS • ELECTRIC DRYERS • AUTOMATIC WASHERS • FULL-HOME AIR CONDITIONERS • GAS & OIL FURNACES • ROOM CONDITIONERS • DISPOSERS

IN '57 GO

FRIGIDAIRE

DIVISION OF GENERAL MOTORS CORPORATION • DAYTON 1, OHIO

MBA 1957 Calendar

April 25-27, Southwestern Mortgage Clinic, Paradise and Jokake Inns, Phoenix

April 30-May 1, Mortgage Servicing Clinic, Biltmore Hotel, Los Angeles

May 15, Board of Governors Meeting, Golden Gate Hotel, Miami Beach.

May 16-18, Southeastern Mortgage Clinic, Golden Gate Hotel, Miami Beach

June 23-29, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 30-July 6, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 28-August 3, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 4-10, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 4-7, 44th Annual Convention, Statler Hilton Hotel, Dallas

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>> AVAILABLE: These MBA Certificate of Merit award works—

Project Construction Financing by George Robert Monroe, Secretary, Monarch Investment Co., Wichita.

The Mortgage Banker of Yesterday and Today by G. J. Hoffmann, Jr., Treasurer, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

The Motel Story by Jerry B. Frey, Jr., The Brown-Frey Mortgage Company, Dallas.

Simplified Mortgage Service Accounting Procedures by John K. Benoit, Equitable Life Insurance Company of Iowa.

Subdivision Development and Financing by J. Wray Murray, Commonwealth Life Insurance Co., Louisville.

Direct Placement of Industrial Securities by Mortgage Bankers by Walter Mahlstedt, Teachers Insurance and Annuity Association of America.

Mortgage Loan Analysis of Retail Properties by Robert P. Russell, T. J. Bettes Company, Houston.

Auditing the Loan Correspondent by D. R. Olson, Equitable Life Insurance Company of Iowa, Des Moines.

The Mortgage Banker

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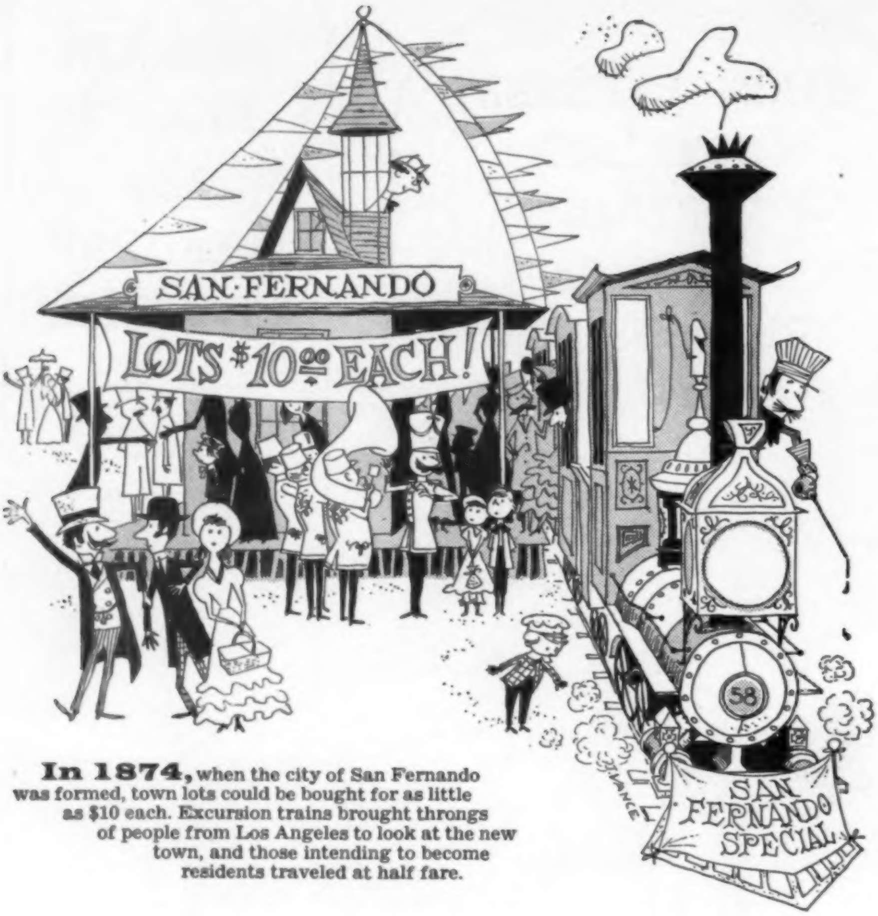

In 1874, when the city of San Fernando was formed, town lots could be bought for as little as $10 each. Excursion trains brought throngs of people from Los Angeles to look at the new town, and those intending to become residents traveled at half fare.

Whatever it cost,

California land is precious...be sure it's safe, too!

An investment in California property grows in value every year. This investment deserves the best possible protection.

We have helped make California land safe since 1893. Throughout these 64 years of conservative management, our assets have accumulated to more than $44,000,000.

Here at Title Insurance, title service is fast, low-cost and dependable. Our Home Office has America's largest staff of title specialists, plus the only complete land records of Los Angeles County...in 14 other California counties we have title plants and experienced title men. Here at Title Insurance is the best safeguard for buyers and lenders.

America's Largest Title Company — TI — *Southern California's Oldest Trust Company*

Title Insurance and Trust Company

433 South Spring Street, Los Angeles 54

California offices of Title Insurance and Trust Company *in Bakersfield, Fresno, Independence, Los Angeles, Santa Ana, Santa Barbara, San Luis Obispo, Ventura, Visalia.* **Associated Company office** *in San Diego (Union Title Insurance and Trust Co.).* **Subsidiary company offices** *in El Centro and San Bernardino (Pioneer Title Insurance and Trust Company); in Oakland and Hayward (Alameda County-East Bay Title Insurance Company); in Riverside (Riverside Title Company); in the State of Nevada (Pioneer Title Insurance and Trust Company); in Portland, Oregon (*Title and Trust Company); in Seattle (*Washington Title Insurance Company). *List of counties available on request.*

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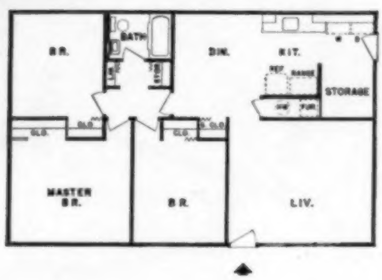
TO SELL FOR $9,000

ECONOMY LINE—MODEL 703 A



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or front to the street construction. Few houses can be attractively built with the end facing the street. Inland has designed special end elevation options to whip the problem of building on narrow or odd-shaped lots.

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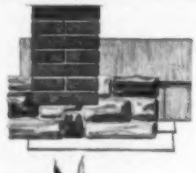
—attractive patio with many possible enclosure designs for privacy. Easy access from patio to either kitchen or bath.



WIDE VARIETY OF EXTERIOR TRIM
—choose from brick, stone, horizontal siding, asbestos board and batten or double-course cedar shakes. Give each house an individual look.

PRE-PLANNED COLORS
—select from a wide range of harmonizing colors, including modern pastels.

SPACIOUS, OPEN PLANNING
—a house with 1144 square feet of living space. Glass wall and Modernfold doors for added spaciousness. 3 bedrooms, 1½ baths and separate dining room.

Highways and Byways of Business

FHA Insurance, VA Guarantees and Other U. S. Credit and Lending Approaches $70 Billion

Federal credit and lending operations, whose emergency origins seem to have been lost with time and with the general mushrooming of Government economic activities over recent years, are rapidly approaching the $70 billion mark in totals outstanding and still heading higher. That $70 billion is a fourth of the country's gigantic total public debt.

Indicative of their importance and economic impact, Federal credit programs have shown a rate of growth more than *five* times that of the economy in the period since the end of World War II.

Figures compiled by the Bureau of the Budget estimate the combined total of direct loans and investments, guarantees and insurance for major U.S. Government credit programs at a new high of $69.4 billion at the end of the current fiscal year on June 30. This represents a rise of more than $6 billion over the preceding year. The Budget Bureau forecasts a further increase of more than $7 billion in the 1958 fiscal year to bring the total outstanding to just under $77 billion at the end of June next year.

Combined direct loans and investments outstanding were only about $5 billion in 1945, and guarantees and insurance were in the neighborhood of $6 billion. Thus Federal credit activities have expanded by over 500 per cent in the years since the end of World War II as against a rise of little more than 90 per cent in gross national product for the period.

Right now the country's attention is centered on the Federal Government's projected $72 billion spending budget for the 1958 fiscal year, the biggest on record except for wartime, in view of the break-through on the cost of living front over the past year and the increasing concern over inflationary symptoms in the economy. Mere spending figures alone, however, important though they may be, are not the entire measure of the impact of Government activities on the economy. As the Budget Bureau points out in a special analysis of Government lending operations: "In addition to influences in specific areas, Federal credit programs exert a powerful influence on the general level of economic activity."

These credit activities have an appreciable impact on the Federal budget. Total budget expenditures under these programs, represented by new loans less repayments, are estimated at $1.4 billion for the current fiscal year and somewhat higher in the 1958 fiscal year.

Through guarantees and insurance of loans made by private lenders, Federal agencies have underwritten more than 40 per cent of all outstanding home mortgage loans. In addition to housing, other large areas of Federal credit activities include agriculture, defense production, and loans abroad.

Direct loans and investments of $21.5 billion comprise somewhat less than a third of the $69.4 billion total of Federal credit programs expected to be outstanding on June 30. Close to half of these loans and investments are to foreign borrowers, led by the United Kingdom which owes $3.4 billion on its 1947 loan and recently borrowed an additional $500 million from the Export-Import Bank to meet financial needs rising out of the Suez crisis. Loans abroad made by the

U. S. Lending Activities

The following table gives the trend of Federal credit activities by amounts outstanding and committed (in billions of dollars) from the 1945 fiscal year to date:

Fiscal Year	Loans	Guarantees	Total
1945(e)	$ 5.0	$ 6.0	$11.0
1950	15.7	20.1	35.8
1951	15.7	23.7	39.4
1952	17.4	27.2	44.6
1953	19.1	30.9	50.0
1954	17.8	35.5	53.3
1955	18.9	40.3	59.2
1956	19.2	43.8	63.0
1957(e)	21.5	47.9	69.4
1958(e)	23.2	53.6	76.8

(e) Estimated.
Source: U.S. Bureau of the Budget.

Department of State under the International Cooperation Administration also are substantial and are estimated at $2.3 billion at the end of the current fiscal year.

In the domestic field, total loans to agriculture were in first place and were estimated at nearly $5 billion as of the end of the 1957 fiscal year. Somewhat over half this total was for the Rural Electrification Administration and a large part of the balance for the Commodity Credit Corporation.

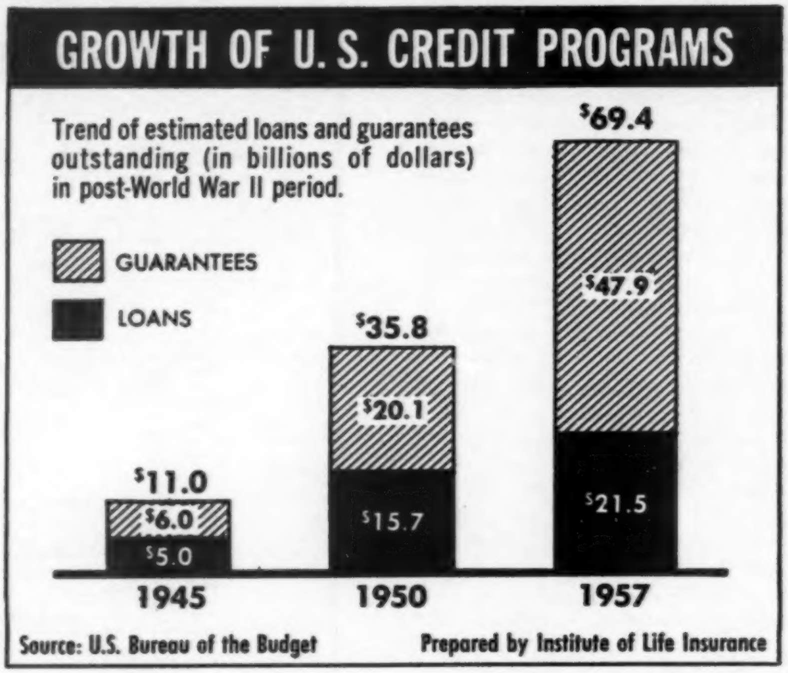
Federal guarantees and insurance in force are estimated at just under $48 billion as of June 30 this year. Mortgage loans of the Veterans Administration and the Federal Housing Administration account for more than 90 per cent of all outstanding guarantees and insurance, and most of the remainder are long-term obligations of the Public Housing Administration. The Budget Bureau reports that as of June 30, 1956, the VA had guaranteed 4,811,000 loans of all types, of which 94 per cent were for homes, 5 per cent for business, and one per cent for farms.

» **FOOD FOR THOUGHT:** Says Under Secretary of the Treasury W. Randolph Burgess:

"But after all explanations, the budget is still too big for the future best good of the citizens of this country. Why, and what can you do?

"Aside from defense, the budget is so large because it reflects the pressures of all groups of the people on the Congress and on the Administration. The budget is not something the Administration makes up each year out of whole cloth. Much of it is obligated years before. Much of it is dictated by the laws the Congress has passed. All of this is a response to what the people demand.

"It would be an interesting and, I suspect, a shocking thing to find how many of any American audience are members of some pressure group."



Tide May Be Turning Toward More Saving to Meet Finance Needs of Our Growing Economy

With all the intensified competition for the consumer dollar and the steadily growing take of the tax collector, the American people have been giving saving a little more emphasis in their budgets over the past year in a reversal of the trend of the two preceding years.

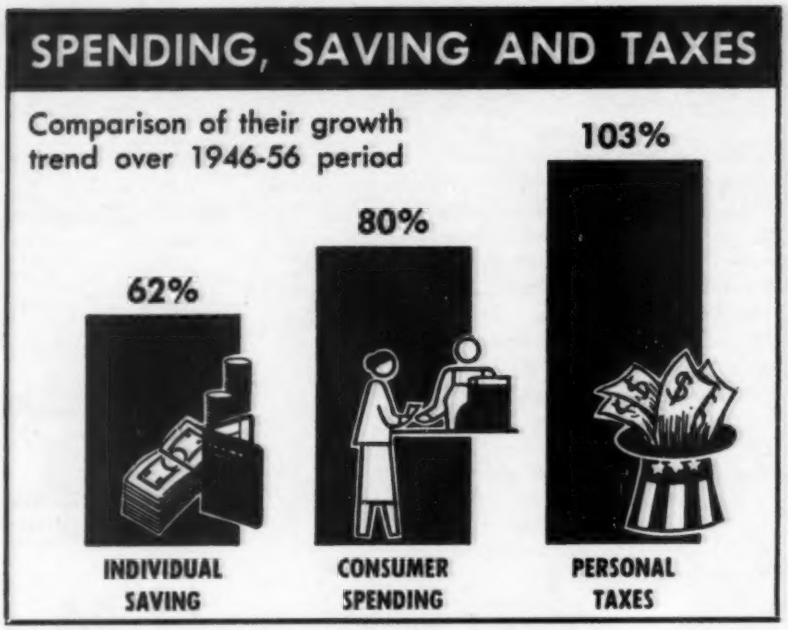
Contributing to this development has been one of the most widespread efforts to stimulate personal thrift that the nation has ever seen. Seldom except in wartime has the need for increased saving been more widely recognized than now, nor has its practice received greater encouragement. An added inducement has been provided by a noticeably improved reward for thrift in the form of higher interest rates, better dividends on savings, etc.

As a result, preliminary indications in figures compiled by the U. S. Department of Commerce are that 1956 was the first $20 billion savings year since the World War II period, when a combination of shortages, rising personal incomes, and patriotism brought the biggest personal savings the nation has ever seen. The indicated savings total for 1956 is about a fifth greater than the $16.6 billion of personal savings in 1955. The previous peak for the period since the end of World War II was $19.7 billions in 1953. The all-time high was $36.9 billions in 1944.

This development on the thrift front is the more significant in view of the need for greater saving to meet the rising capital requirements of our expanding economy, and to help counteract the strength and persistence of inflationary pressures which have pushed the cost of living to new high levels. The American people have a long record of responsiveness to the needs of the times once the facts are made known to them. Their current action, therefore, is encouraging in this respect.

Helpful though the recent upturn in savings may be, the big test still lies ahead. Figures on the sources and uses of funds in the capital market show that the combined demands from home owners, business and industry, and Government have doubled over the last decade, reaching a peak of $45 billion in 1955. Current estimates are that the credit and investment needs of our expanding economy will probably be half again as great a decade hence, barring a fundamental change in conditions.

Savings have not only lagged behind this need, but they have also trailed the growth of other economic indicators in recent years. This is evident from the figures on the trend of personal income and its disposition in the period from 1946 to date:



» From 1946 through the first nine months of 1956, total personal income rose from $178 billion to an estimated $322.5 billion at an annual rate, an increase of 81 per cent.

» Consumer spending kept pace with this rise, increasing from $146.6 billion in 1946 to an annual rate of about $264 billion in the first nine months of 1956, up 80 per cent for the period.

» Individual savings increased from $12.6 billion in 1946 to an annual rate just above $20 billion in the first

nine months of 1956, an increase of only around 62 per cent.

» Direct personal taxes alone, which took $18.8 billion of total personal income in 1946, have grown to more than $38 billion, a rise of more than 100 per cent.

The figures thus show that personal savings have trailed both income and spending by close to a third in rate of growth in the 1946-56 period, suggesting perhaps that the expansion of the tax burden has had a greater impact on saving than on spending.

An interesting commentary on the trend in the above relationships is that personal taxes forged ahead of individual savings in 1946, contrary to the normal past relationship between the two, and have widened the lead since. Right now direct personal taxes alone, not counting the rest of the huge tax burden borne by the public, take about 12 cents of every dollar of personal income. By contrast, personal savings amount to less than 7 cents of the personal income dollar.

Confirmation of the Fact That Last Year Was One of Best in Country's History

The American people enjoyed an increase in aggregate personal income of $19 billion in 1956 over the year before, one of the biggest year-to-year gains on record, and the way it was used introduces an encouraging note of prudence and restraint in our inflation-charged economic atmosphere.

The significant thing that stands out from the figures is that the people last year saved a comparatively high proportion of this $19 billion income rise—over a fifth—even though they spent more and paid a bigger tax bill than ever before.

This performance is in marked contrast with what happened in the two preceding years, when spending was maintained at the expense of saving, and it lends hope for a repetition this year. The Administration's projection of Federal receipts for the 1958 fiscal year includes an estimate of $340 billion of personal income for 1957, up $15 billion over last year. If this is realized, and the people maintain the same savings pattern that they displayed in 1956, then personal savings could reach the neighborhood of $24 billion for 1957 as against less than $21 billion in 1956.

Such an achievement on the personal savings front would represent a dual contribution to economic stability and sound progress, by helping to bridge the gap between savings and the capital and investment needs of the economy, and by providing an essential element for combating rising inflationary pressures.

Here is where the $19 billion of increased personal income in 1956 went:

Nearly $12 billion, or 62 per cent, went into consumer spending. This boosted the total of personal consumer expenditures for the year to just under $266 billion, the highest on record.

More than $4 billion, or 22 per cent of the $19 billion personal income increase for the year, were added to savings. This percentage of the income rise saved in 1956 was the largest in several years, indicative of what can be accomplished if thrift is given just a little more emphasis.

The tax collector also got a substantial bite out of the year's increase in personal income. The figures show that direct personal taxes alone rose by more than $3 billion in 1956, taking 16 per cent of the $19 billion personal income rise, to bring the total for the year to a new high of close to $39 billion.

Slight Recession Changed Things

By contrast with the above disposition of a personal income increase, the figures for 1955 and 1954 show an entirely different picture as far as savings are concerned. In 1955, for example, personal income scored nearly as big a rise as it did in 1956, going up by $18.8 billion over the year before. However, practically all of this increase went into spending, $17½ billion or 93 per cent to be exact. Furthermore, the personal tax bill went up by $2.6 billion for the year. As a result, caught between a spending splurge and rising taxes, personal savings declined $1.3 billion from the year before, totaling only $16.6 billion and making 1955 the smallest savings year since 1950.

The situation was somewhat different in 1954, a year of recession, in that personal income was little more than a billion dollars higher than in 1953 and the personal tax bill was reduced for the first time since the late Forties. However, personal consumption expenditures were boosted $6 billion in 1954 over the year before, thus not only absorbing the entire tax reduction but also involving a drop of close to $2 billion in savings from the 1953 level.

The figures for the last three years thus indicate a high degree of flexibility in the people's saving and spending decisions. This is evident in the record prior to 1953 also. Significant proportions of income increases annually went into savings from 1950 through 1952, and even more so throughout the World War II period. There was a reversal in 1945 as the war drew to a close, and personal savings fell to as low as $4 billion in 1947 as compared with $36.9 billion only three years before. The savings recovery since 1947, irregular though it may be from a year-to-year point of view, testifies to the hold that thrift and voluntary provision for the future have on the American people.

Mobile Homes Now a Half Billion Dollar Industry, One of 10 Homes a Mobile Unit

For the first time in the industry's relatively brief history, sales of mobile homes passed the half-billion mark, reaching a total of $501,185,220 in 1956. This compares with a retail sales volume of $435,000,000 in 1955.

Last year, 121,470 mobile homes were sold, an increase of 19 per cent over 1955. This growth in sales indicates the extent to which mobile homes have become an important segment of the housing industry. Ten years ago total sales were only $146,000,000, and 26 years ago sales were $1,300,000. In 1956, slightly more than one out of every ten housing starts was a mobile home.

The Mobile Home Manufacturers Association estimates that more than 3,000,000 people now live in mobile homes. The largest single group, accounting for more than 60 per cent, is made up of construction workers and others in semi-mobile occupations. The next largest group is military personnel, and their families, who comprise 20 per cent of the total.

Sales of both luxury mobile homes and of vacation-type trailers increased in 1956. Sales of units more than 45 feet in length, including the 10-foot-wide models, increased more than 100 per cent over 1955, indicating the extent to which the emphasis on mobile homes has shifted to "home" instead of "mobile," it is said. Surveys indicate that the average mobile home owner moves only once in every 12 months.

Sales of mobile homes less than 25 feet in length increased 20 per cent in the past year. Sales of these units, which are used primarily for vacationing, show the increased interest which Americans have in seeing their country. This type of mobile home was the origin of the industry.

Other reasons for the increased sales are better park facilities and the acceptance of mobile home paper by banks and finance companies.

The Official Park Guide lists 6,102 parks, as against 4,000 in the 1953-54 edition. Investment in these parks is more than $500,000,000 and is expected to rise sharply in the next few years, since FHA insurance on trailer park loans is now available. The first park to be financed through an FHA-insured loan, located at Leesville, La., was opened early in 1957 and will provide spaces for 200 mobile homes.

Does FHA Insurance Cost Too Much? It Does According to This Viewpoint of the Matter

"To help home building meet its mortgage money crisis, the government should stop overcharging home-buyers for FHA insurance."

So says House & Home.

FHA insurance today costs much too much, the magazine's editorial declares.

"It costs more than sound actuarial practice can justify. It costs so much that FHA has piled up reserves 70 times greater than all its losses. It costs so much that FHA could meet a mortgage collapse like 1933 without even taking advantage of its most important safeguard—the right to pay off in debentures instead of paying off in cash.

"It costs twice as much as similar government insurance costs in Canada. It costs more than twice as much as private insurance companies in England charge for comparable insurance with no government backing at all."

The only reason FHA's premium looks low to the uninformed, it says, "is that FHA insures not only the risk portion of the mortgage, but also the portion on which no insurance is needed. A 2 per cent premium on all of 90 per cent mortgage is about the same as an 8 per cent premium on the risk portion above the conventional 67 per cent, or 18 per cent on the risk portion above the savings and loans' 80 per cent ceiling. (In England only the risk portion above 80 per cent is insured at 10 per cent premium.) At today's high rates, FHA is just the opposite of a concealed subsidy; it is more like a concealed Federal tax on the ownership of small homes."

FHA's insurance also costs lenders much too much to handle, the magazine declares. Each month, some 2,200,000 separate little payments must be computed, collected, entered, credited. Each of these is a few cents less than the month before, a few cents more than the month ahead. The payments average less than $3, but they go on and on for perhaps 360 months (on a 30-year mortgage). Once a year, FHA bills every lender for the premium due on every loan.

"Could a worse way to waste time and money be imagined?" it asks.

"For years we have been urging a smaller mortgage insurance premium collected in advance. Last fall, Professor Ernest M. Fisher of Columbia, exploring the adequacy of FHA's reserves on a grant from the Life Insurance Association of America, the Mortgage Bankers Association, the U.S. Savings & Loan League, and the National Association of Mutual Savings Banks, provided the all-important statistics needed to support the change. The change was endorsed by the industry leaders at a House & Home Round Table on how to get more money for houses, and now big lender Harry Held has made it a key feature of his very important proposal for making FHA more workable.

"The Round Table tentatively approved a single 2 per cent premium in place of today's yearly ½ per cent, and the Round Table approved adding the 2 per cent to the mortgage instead of adding it to the down payment. This could be the easiest and simplest solution and it seems to be working well in Canada.

"A better way might be to adopt

the British plan of insuring only the risk portion above the conventional loan ceiling, charging say a 5 per cent single premium for the excess up to 80 per cent, then 10 per cent on the excess from 80 per cent to 90 per cent and 15 per cent on the excess over 90 per cent. On a 95 per cent $9,500 mortgage with a 67 per cent conventional loan limit, this would cost $240 compared with $190 under the Canadian Plan and over $500 paid over 30 years under today's FHA charges. This method would have the double advantage of charging a proportionately higher premium as the risk increases and of reconciling conventional with insured lending.

"Either of these plans should enable us to make FHA mortgages much more attractive to lenders without making them cost the home buyers a penny more! For 5½ per cent paid the lender would be no more than today's 5 per cent paid the lender and ½ per cent paid FHA. And the prepaid single insurance premium would cost no more than the discounts (open and concealed) that home buyers must now pay to get money below the market rate.

"The government has said, not once but many times, that it would like to do something now for home building, the industry hit first and worst by tight money. Here is something the government can do almost overnight to ease our money pinch."

More Life Money Went into Mortgages Last Year Than into Any Other Type Investment

Capital in the amount of $5,552,000,000, largely made up of new funds, was made available to the national economy last year through the accumulations of life insurance policyholder funds in the more than 1,000 U.S. life insurance companies. At the start of this year, the total assets of these companies had risen to $95,819,000,000, invested in a representative cross section of the national economy.

While this past year's buying of new life insurance and the increase in aggregate ownership of life insurance were at record levels, the 1956 increase in total assets showed a decline from the year before. The year's final figure for capital funds from this source will show a drop of several hundred millions from the previous year, at a time when there was an even greater demand for capital through the channels of pooled savings.

Apart from other considerations, a decline in the rate of asset growth would be a natural consequence of the relatively greater share of insurance in force represented by group and term insurance. This would suggest that American families could make a greater contribution towards meeting the capital needs of the nation, as well as building greater reserves for themselves, if they bought a greater volume of the higher-reserve types of policies.

Reinvestment funds from maturities, amortization and refundings brought the total life company acquisitions of mortgages and securities in 1956 to $17,035,000,000, some $800,000,000 less than the year before.

Largest block of new investments acquired by the life companies last year was the record $6,686,000,000 of mortgages going on the books. These brought aggregate mortgage holdings to $33,017,000,000.

Sharp Rise in Costs

Dollar volume of new construction rose 3 per cent in 1956 over the year before to a new high of $44¼ billion.

Measured in 1947-49 prices, however, construction outlays were down 2 per cent from the previous year, the first post-World War II year to witness an apparent decline in the physical volume of construction.

The Government attributed this decline in physical volume entirely to new residential building, which reflected not only the drop in new home construction last year from the year before but also the sharpest rise in overall building costs in five years.

Realty Holdings Up

With the purchase of $353,000,000 of additional real estate during 1956, realty holdings of all U. S. life companies at the start of this year, rose to $2,809,000,000.

Largest block of the real estate purchases of the life companies was in commercial and industrial properties to be held for rental purposes.

House Hearings on Housing

One thing became certain during the first two months of 1957: how to keep the production of housing up and provide the financing for it would be a prime consideration of the new Congress. On almost no subject has there been so many hearings, so many varied points of view expressed, so many diverse proposals. Out of this welter of opinions and suggestions would come concrete legislation; and while it was in the planning and negotiation stage, MBA was on the Hill to present the case for mortgage financing. Others were there too.

One point of view, of course, was that of the home builders who urged accelerated mortgage purchases, with FNMA's special assistance fund to be increased by $2 billion "to provide emergency relief in geographic areas and in price ranges where mortgage credit is not now available." Congress would provide "for the period of the emergency" that FNMA buy mortgages in these areas at not less than 99.

Robert Tharpe of Atlanta, chairman of MBA's Legislative Committee, presented the Association's contentions and said that the builders' recommendation would "enormously increase the demand for Federal funds for home mortgages."

Both MBA and the builders supported the Administration's request for authority to boost from 4½ per

At the MBA Congressional dinner in Washington: Above, left, Everett Mattson, Houston, with Rep. J. T. Rutherford of Texas, MBA President John F. Austin, Jr. and Rep. Olin E. Teague of Texas. Right, Guy T. O. Hollyday of Baltimore, Sen. A. Willis Robertson of Virginia and George C. McIntosh of Arlington, Va.

Below, left, Jack Adair, Atlanta, Rep. Paul Brown of Georgia, and Robert Tharpe, Atlanta. Right, Miles Colean, Washington, John A. Terrill, Rep. Henry O. Talle, of Iowa and Carey Winston, Washington.

Lower photos, left, S. Miles Montgomery, Rep. James A. Haley of Florida and Brown L. Whatley of Jacksonville. At right, partial view of the dinner.

cent to 5 per cent the maximum interest rate permissible on loans guaranteed by VA. Tharpe said the GI loan program will disappear if the interest rate isn't high enough to attract sufficient money from lenders.

He opposed Congressional proposals to expand the VA's direct loan program at the current interest ceiling through use of more than $1 billion of the National Service Life Insurance reserve fund.

"We believe that if the Congress begins to expand the direct loan program primarily in order to support a sub-market interest rate, the ultimate demand upon the Treasury will stagger even those used to discussing matters in billions of dollars."

He supported proposals to reduce FHA down payment requirement for all borrowers as a means of meeting the needs of veterans for home loans in the event the GI program "dries up." However, he said, a better solution in the long run would be for Congress to give FHA and VA the power to fix interest rates under their programs "to follow the changes in the money market as they occur." He said one reason for the slump in the agency's program in recent months has been its inability to adjust the interest rates as the market changes.

And while these hearings by the subcommittee of the House Banking and Currency Committee were in progress, MBA invited members of this group, as well as members of the Senate Banking and Currency Committee and House Veterans Affairs Committee, to have dinner with Association officers and governors at the Sheraton Carlton *(see photos)*.

How We Progress From Now On Depends on These Decisions

During few times in the past have Americans become so aroused about the economic future as they have been in recent months when, confronted with the largest peacetime budget in history, they have come to the realization that the spending goes on and on without a halt, that the threat of inflation is with us just about as seriously as ever before, that few in authority seem to hold out much hope for substantial decreases in foreign aid, that the continued tax burden must surely lead to trouble. What Mr. Wilde has set down here is not new; indeed, every fact he records is being carefully considered by many people as never before. What is significant, however, about what he says is that here, in one place, he has combined the economic facts that have brought the nation to the problems it faces in 1957—and then asks the question as to what we are going to do about them if we want to avoid real economic trouble. It is a remarkable statement, one which—except for possibly a few minor points—is not open to argument. Which brings us to this point: What are the people going to do? Mr. Wilde first advanced these views before the hearings of the Joint Economic Committee considering the President's Economic Report. They deserve consideration.

By FRAZAR B. WILDE
President, Connecticut General Life Insurance Company
Chairman, Research and Policy Committee, Committee for Economic Development

THIS country is struggling on three fronts today.

The first is the struggle against the world-wide advance of Communism.

The second is the problem of maintaining high employment and a steady advance in our real standard of living.

Frazar B. Wilde

The third is the struggle to resist a steady deterioration in the buying power of money. These problems are all interrelated.

The very real inflationary danger, for example, clearly arises out of the cost of carrying on the fight against Communism, while at the same time trying to meet high private investment and consumption demands.

The Economic Report of the President, although properly concerned with inflation, seems to be somewhat inconsistent in dealing with it. Assuming a strong year in 1957, the inflationary forces, which appear to be growing, deserve more concerted attention. What happens to us in 1957 will, in part, determine what happens in future years. Fiscal policy, monetary policy and legislation in the Congress are doubly important this year in the light of this situation.

Anyone who looks at the American economy, either through the Economic Report of the President or directly, cannot fail to be impressed with two facts:

» The American economy has made a tremendous record of growth in output and employment in recent years.

» Despite the high levels of production achieved, the American people are trying to get more out of the economy than it is capable of producing at the present time. This is natural and good in one way, but also dangerous.

We have every reason to be proud and pleased with the productive achievements of the American economy. But, it is the less satisfactory aspect of our present situation that I want to discuss.

The effort to get more out of the American economy than it can produce in the short run is not confined to any particular group, and there is no value in allocating blame for this situation. All of us as consumers, businessmen, investors, wage earners and citizens share in the responsibility.

This effort to extract too much from our economic system in too short a time shows itself in three principal ways:

» A demand for rapidly increasing government expenditures, especially Federal expenditures, to provide more services and benefits for the population.

» A demand for more capital and credit than the economy will supply through its savings.

» A demand for wage and salary rate increases exceeding the rate of growth of productivity.

It is quite clear that the ultimate consequence of these claims upon the economic system, if they are not restrained or offset, may be serious inflation. We have, in fact, had some inflation in the past year. This inflation may be roughly measured by the increase of between 2 and 3 per cent of the consumers price index. Although this is generally characterized as a small or moderate inflation, it may not remain so. I do not know

whether inflation will continue this year, but even if it does not, we could not conclude that we had licked inflation as a long-run threat to the American economy. Similar recurring inflation, even at intervals of three or four years, would add up to a pronounced debasement of the dollar over the next two decades.

The rise in consumer prices does not fully reflect the inflationary pressures that may be building up. During the past year and a half, costs of construction, and of capital equipment, have risen sharply. In December, 1956, the index of construction costs was 7 per cent higher than in June, 1955. During the same period, prices of producer equipment rose 13 per cent. These sharp increases in capital costs will be reflected in the future in higher costs of producing consumers' goods and providing government services.

There has been a great deal of discussion about inflation in recent months—a discussion heightened by the President's concern with the problem as expressed in several recent messages. Despite this discussion, the significance of inflation and the absolute necessity for stopping it and preventing it in the future are not yet fully appreciated by the American people. Perhaps this is because the viewpoints of so many of us about economic problems were formed during the Great Depression, when the cardinal evil was unemployment, in comparison to which the insidious and creeping danger of inflation seemed small. Perhaps it is because the recent rate of inflation is so much smaller than the rate of inflation we experienced in the immediate postwar years.

Appreciation of the full significance and danger of inflation requires a long look. A 2 per cent or 3 per cent inflation in one year is a rate, which if continued on the average, would double the level of prices in between 23 and 35 years. This would be in addition to the doubling in the level of consumer prices which has taken place in the last 17 years.

We are justified in looking at the problem in this way because we are now face to face with the danger of a long-term persistent trend to inflation. We are experiencing inflation in a period of what we must regard as normal, high-level economic activity. We cannot count on the world situation, insofar as that influences our inflationary problem, radically changing its character in the near future. Nor can we say that we expect or want to eliminate the inflation problem by retreating to a lower level of employment and economic activity.

Clearly another doubling of prices in less than a generation would work serious hardship upon large groups of our population. Those whose incomes are largely fixed in dollar amounts, such as pensioners—and the older-age group is growing—and those whose incomes fail to rise as rapidly as prices, all lose from inflation. Those who own fixed dollar assets—the insurance policy-holders, the shareholders in savings and loan associations, the holders of savings accounts in our banks, the owners of E-bonds—find their assets no longer buy what they did before inflation.

Just as important as the unfairness of the effects of inflation upon the distribution of the national income are its adverse effects upon the total size of the real national income. Inflation is a severe tax upon savings in the form in which most of the population must, in fact, save. And a large flow of savings is the indispensable condition for the rapid growth of productive employment and real national output.

There is another fact that we should bear in mind when we look at what seems a small or moderate rate of inflation. There is no assurance that a small rate of inflation, once tolerated and accepted by public policy and private thinking, will remain small. On the contrary, there is every reason to believe that under such conditions the rate of inflation would accelerate. There may have been times in the past when slow inflation could go on for a long period unobserved by the population at large. This is no longer true in the United States. The sight of a continuous even though slow trend of inflation will set in motion efforts on the part of all groups of the economy to protect themselves against it—to make wage rates rise faster and to adjust all kinds of contracts to the estimated future higher level of prices. The consequence of this effort of each to protect himself against the anticipated rates of inflation can only be a still greater rate of inflation.

We must conclude that inflation is an intolerable, unacceptable and unsustainable way of life and will ultimately lead to full unemployment.

Perhaps one must apologize in this sophisticated age for taking a strong position against sin—and inflation is

WHY? *Are we now committed to an annual expenditure of $5 billion for aids to agriculture and if so, why?*

WHY? *Are we now planning to have FNMA buy $1.7 billion of mortgages in the two fiscal years, 1957 and 1958? Have plans for making FNMA a private, mutual enterprise been abandoned?*

WHY? *What has happened to the theory that as social insurance benefits increase, public assistance expenditures by the Federal Government will decline? Between fiscal 1948 and fiscal 1958, social security benefits will have risen from $500 million to $7.2 billion but public assistance expenditures will have more than doubled, from $0.7 billion to $1.7 billion.*

WHY? *What has happened to the general consensus in this country that the State and local governments should assume greater responsibility for financing and administering programs involving local matters? The present budget indicates that Federal aid to the States will have tripled between the fiscal years 1948 and 1958, from $1.7 billion to $5.5 billion.*

an economic sin. But we have not, I fear, become so intensely aware of the evils of inflation that we can assume that the necessary measures—many of which are hard measures — will be taken to prevent it. So I would say that we cannot emphasize too strongly that the first principle of economic policy today must be to prevent inflation.

Of course we must do more than that. We not only want to restrain inflation; we want to restrain inflation by the best means—by the means that are most nearly fair, most consistent with freedom and most conducive to a rapid rate of economic growth. It is in these terms that I discuss each of the three problems mentioned earlier —the problem of government spending; the problem of credit policy and the problem of wage and salary rates and price determination.

The President's Budget Message shows an increase of a little more than $10 billion in Federal cash expenditures between fiscal year 1956 and fiscal year 1958. It is necessary to look at the cash budget for this purpose because it is only in the cash budget that one can see the influence of some of the most dynamic factors in the Federal expenditure picture—such as the outlays for highways, the secondary mortgage operations of FNMA and the increase of Social Security Trust fund benefits.

It might be said that the inflationary effects of this large increase in Federal spending had been contained or offset because the cash budget has been kept in balance. In fact the cash budget shows a surplus of about $3 billion for the fiscal year 1957-58. However, even in these over-all terms we have not entirely offset the inflationary effects of rising Federal expenditure. The estimated cash surplus will have declined from about $4½ billion in fiscal 1956 to about $3 billion in fiscal 1958. Moreover, the 1958 estimate is probably on the high side. It assumes, for example, that we will get about $600 million of additional receipts from a postal rate increase. In the light of past experience, this assumption cannot be regarded as firm. In addition, some part of the 1958 surplus is the result of the inflation itself and its consequent effects on levels of income, profits and sales. So it is fair to say that we have not been entirely offsetting the effects of rising expenditures upon inflation.

More important, to the extent that we have offset the inflationary effects of rising government expenditures, we have only done so by retaining a level and structure of tax rates that are highly unfair and highly dangerous to the continued growth of the economy. We did get some tax reduction and reform in 1954, but generally since then we have kept the budget in balance by deferring achievement of the general tax reduction and reform that was expected to occur when the peak of Korean War defense expenditures had been passed, and as the growth of the economy yielded higher tax revenues.

The reason why we have failed, in a period of economic progress, to reach a point where tax reduction and tax reform can be considered is readily apparent. Because we very properly believe in a balanced budget in prosperous years, we have been and are today unable to adopt significant tax reduction programs, because we have no important surpluses and do not anticipate any now. The lack of important surpluses is due to the fact that while revenue rises in each year by substantial amounts, we parallel the growth in revenue by an increase in expenditures of equal or larger amount. This is the old family phenomenon where a rising income is disbursed in increased spending with no increase—in this case a decrease—in family savings. This can prove dangerous, if government continues to adopt this practice.

We cannot look forward with equanimity to continued existence of the present structure of tax rates. In the first place the system is basically unfair. Congress has erected a schedule of very steeply rising individual income tax rates. It has then built up a long, detailed and complicated list of circumstances in which particular classes of incomes or particular classes of transactions would not be subject to those rates. It has done this because it has been possible in a great many cases to show that the literal and universal application of these rates would have results that Congress did not really desire—results that would either be patently unfair or dangerous for certain kinds of economic activity that are valuable to the country. But every time one class of exceptions is created another class of exceptions is brought close to the borderline where it becomes arbitrary to say that it should be subject to tax. Pressure then arises, with considerable logical foundation, for bringing the new borderline cases within the area of the non-taxed. As this goes on the tax base becomes more and more eroded, and those who do not get the advantages of the special provisions come to feel more and more discriminated against.

We are embarked on a progressive process of deterioration of the tax system and weakening of taxpayer morale which is already far advanced, and which if long continued will undermine the essentials of a tax system that will pay for the necessary expenditures of government. This is the inevitable consequence of the schedule of tax rates Congress and the community apparently approve in the abstract, but do not really mean to apply to particular situations when they look at them closely. The only way out of this situation is to get back to a much more moderate schedule of tax rates, a schedule which we are willing to apply with a fair degree of generality.

A somewhat similar problem exists in the schedule of excise tax rates, where there is no good or logical reason for distinguishing between the items subject to tax and those not subject to tax.

In addition to being basically unfair, the present tax system contains within itself potentially highly dangerous threats to the future growth of our economy. A large part of the tax collected come from incomes that would normally be saved and invested in productive ventures. The structure of the system provides a strong incentive for financing all kinds of business by incurring debt rather than issuing equity securities. The system greatly increases the difficulty of obtaining funds for new and growing enterprises that need outside money because they cannot rely heavily on an adequate flow of income after tax for expansion. In addition it diverts a great deal of the attention of a great many imaginative people from productive work to the search for ways to minimize tax liability.

It is fashionable to say that, in view of the rapid growth of the American economy since the end of the war, the

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Everything Adds Up to

I LIKE to refer back to what I forecast a year ago, not to pat myself on the back but rather to check my own course, to see whether my thinking is correct or not. A year ago I said:

"1956 will be a good year. Whether it is the best year that we ever had in the peacetime history of our country, better than 1955, or only the second-best year, is not as yet clear. A great deal will depend upon internal political developments, upon external political developments, and upon the movement of the equity market which, as I stated before, exercises a powerful influence on business. But be that as it may, 1956 will be a good year."

Dr. Marcus Nadler

After careful study, I have reached the conclusion that I merely have to change the number "6" to "7" and I can make the same forecast for 1957. This will be a good year. Whether 1957 is as good as 1956, or better, will depend upon factors that can not be predicted. It will depend to a large extent upon the international political situation.

The Middle East situation, to say the least, is highly uncertain and fraught with a great many dangers. The President of the United States is endeavoring to develop a new policy towards that very vital area of the world. At the same time, we don't know what the involvements will be and how much it will cost.

The satellite countries are full of unrest. They are gradually realizing that the Communism imposed upon them by the Soviet Union is the greatest fraud perpetrated in history. We have lived to see the day when the future historian will be able to say that the Hungarian Revolt marked the beginning of the end of the Soviet Empire.

But we do know that the Soviet leaders will not give in so readily, and who can tell what the consequences of these developments will be?

We know that money is tight, perhaps tighter than in a great many years. When money is tight, something has to give. Already we've noticed, in 1956, a sharp decline in home starts and in all probability the number of home starts in 1957 will be smaller than in 1956. In all probability the tight money situation is bound to have an impact on the construction industry in general, and who is smart enough to say how far it will go when the tight money will come to an end, and what the long-range consequences of this development will be.

But be that as it may, irrespective of these developments, 1957 is bound to be a good year. Immediately the question arises in view of all these uncertainties, "How can one make any predictions at all?", and the answer simply is this:

If we analyze the broad, underlying forces that operate in the economy of the country, if we weigh and measure them carefully, if we do not indulge in wishful thinking, we will be able to reach certain definite conclusions. There is a possibility of error, but the error can not be very great.

What are these forces? The economists have developed certain tools, and one of the tools is a study of the magnitude of the Gross National Product. The Gross National Product simply means the sum-total of all the goods and services produced in the country, expressed in terms of the dollar.

There are three important elements in the Gross National Product, and they are: (1) consumption expenditures by individuals; (2) private investments; and (3) government expenditures. Let us analyze these three segments carefully and let us see what comes out.

Let us look first at personal consumption expenditures, because this is by far the biggest item. Personal consumption expenditures during the year 1956 are estimated at $268 billion, as compared with $254 billion in 1955. In part, the increase reflects higher prices, higher wages. In part, however, it also reflects a greater volume. In my opinion, personal consumption expenditures, that is, total expenditures by individuals for everything except homes, in 1957 will be higher than in 1956.

Why? Let us take these personal consumption expenditures and divide them into the most important components. About 50 per cent of the total personal consumption expenditures consists of nondurable goods, such as food, apparel, chemicals, rubber, and so forth.

Now, 36 per cent of total consumption expenditures consists of services, and 14 per cent of durable goods. If you take total personal expenditures on nondurable goods, you will find that an increase occurred every year with the exception of 1949, when a minor dip took place.

Now, you will remember, 1949 was a poor year. It was marked by a decline in business activity, a decline in prices, a decrease in employment, and in disposable income. I do not foresee, in 1957, any decrease in prices. I do not foresee any decline in wages, and therefore even if there is a minor decline in business activity, let us say in the second half of the year, consumption expenditures on nondurables are likely to be higher in 1957 than in 1956.

Expenditures for services have increased every year since these figures are published. We are becoming, more and more, a service economy. The costs of services has constantly risen and therefore there is no reason to believe that there will be a decline in expenditures on services.

Home construction definitely will be lower in 1957 than in 1956. Commer-

o | # a Good Business Year

By DR. MARCUS NADLER

Professor of Finance, Graduate School of Business Administration, New York University

Now that all of the forecasts for 1957 have been well digested—and some proved wrong even before we got very far into the year—Dr. Nadler returns for a considered view of just what is ahead business-wise. He takes the various factors which make up American well-being from an economic sense, analyzes each one and comes up with the conclusion that it is going to be a good business year. And for the first two months, he has been right on the button.

cial construction such as office buildings, garages, shopping centers, etc., will be smaller this year than last year.

Why? Money is tight. It is extremely difficult to obtain mortgage money and construction loans, and this is bound to have an impact on the construction industry.

As against this, however, all the estimates that I have seen so far are to the effect that capital expenditures by corporations for new equipment and new plant will be higher in 1957 than in 1956. It is possible that these forecasts and estimates may not materialize. If they materialize, if total investments in 1957 are as large as last year, then the total volume of business in 1957 will be higher than in 1956. If not, if because of the present tight money—because some industries already have a productive capacity greater than the present demand—if capital expenditures do not materialize, then 1957, instead of being the best year that we have had so far in peacetime, will be the second-best year. Therefore an analysis of all these various phases affecting the private sector of the economy gives us every reason to look into the future with confidence and hope.

But there is another sector that has to be considered and that is total purchases of goods and services by government. In 1955, these expenditures amounted to $76 billion—that is, expenditures by the Federal Government, and local governments. In 1956, these expenditures probably will be nearly $80 billion and in all probability these expenditures for the present year will be between $83 to $85 billion. The expenditures of the Federal Government will be larger, and that state and local government expenditures are constantly increasing. With the private sector of the economy active, with government expenditures increasing, business activity is bound to remain at a high level.

Another question that interests us in the question of wages and prices. During the last 12 to 18 months, we witnessed strong inflationary pressures operating in our economy. Wholesale or retail prices rose to new highs. Wages increased constantly, reaching new peaks. And the question that arises is, "Where do we go from here?" Are these inflationary forces temporary, reflecting the world-wide boom, or is this a permanent phenomenon, and can we look forward to prices increasing 2 or 3 per cent every year?

The trend towards higher prices and wages, which was so pronounced during the last year, will continue during 1957. Prices and wages will be higher. The increase in prices will not be as pronounced this year as last year and some time in 1957 prices will reach their peak and then they'll remain at the same level, at least for several years, and we will witness the same stability in prices as we had from 1951 to 1955.

The reasons for this statement, briefly, are these: (1) the productive capacity of the country is increasing. In many industries, production exceeds the effective demand. This certainly applies to the textile industry, the automobile industry, copper, aluminum, paper, and many others; (2) The great pent-up demand for all goods and services has been met. The people are well-stocked; (3) Competition is keen and is becoming keener every day; and when the productive capacity of the country is increasing as it is, and competition becomes as keen as it is, then the increase in

prices can not be as pronounced as it was last year.

This does not apply to all commodities. There are certain commodities which are not sold to the ultimate consumer. Prices of these commodities may go higher. But the commodities that are sold to the ultimate consumer will increase, and will reach a peak this year and then stabilize themselves at this level for two or three years.

Wages also will continue to increase during the present year. One does not have to be an economist or a student of business to make this prediction. Many industries have signed contracts with the unions whereby an automatic increase will be granted in 1957. It applies to steel, automobiles, and a number of others and about five million people will receive an automatic increase in wages some time in 1957.

Also, as the Consumer Index increases, many labor unions have escalator clauses whereby wages automatically go up and therefore wages will continue to rise but, again, I believe that the increase in wages will not be as pronounced in 1957 as it was during the last year. Whereas during 1956 productivity did not increase, this year because of the keener competition and because of the great efficiency of the new machinery and equipment, the productivity of labor will also increase and therefore I have reached the conclusion that at least temporarily the increases in prices will be brought to a halt. How long this will last, nobody can as yet tell.

Competition will increase, and this increased competition will cause pressures on the margin of profits.

Money rates, which have played such an important role during the last year, in all probability, will remain at the present level for the next few months. Some time in the middle of the year, when the effects of the tight money have become apparent, the demand for capital should not be as great as it is today.

In the second half of the year one may expect a liquidation of inventories, whereas, through the entire last year inventories rose considerably. A liquidation of inventories will reduce the pressure on the demand for bank credit, and money rates ought to be easier in the second half of the year than in the first half.

In all probability, inventories will continue to be accumulated during the first half of the year, and be reduced in the second half of the year. This applies primarily to steel. Everybody knows that steel wages will be increased in July 1957, and the increase in steel wages will be followed by an increase in prices.

Therefore, anybody who needs steel now, or will need it in the second half of the year, buys it now, provided he has the money or the credit. After steel prices have gone up—and in 1957 there will be no steel strike—steel inventories will be liquidated, and this is bound to have an impact on money rates.

Now, what conclusions can one draw from all this?

» 1957 will be a good year. Whether better than 1956 is not as yet clear. Looked at from the over-all picture, there is a possibility that the first half of the year will be better than the second half of the year. Any decline in business activity that may take place in 1957, or in 1958, will be of minor importance, it can not go very far, and can not last very long.

There are a great many built-in stabilizers in our economy. The moment business activity begins to show signs of weakness, the credit policies of the Reserve Authorities will be changed, the availability of bank credit will increase and that, in turn, will set in motion a renewal of home starts and the construction of public works, notably schools, for which there is still a tremendous pent-up demand.

"Prices will continue to rise, but the increase will not be as pronounced this year as last year. Wages will continue to increase, but on a smaller scale. 1957 will be a year of labor tranquillity and productivity of labor and machinery ought to be higher this year than last year. Money rates will remain high for the next few months and then a change in the money and capital markets may be expected.

"The soft goods industries ought to be better than the durable consumer goods industries. Finally, to me the greatest satisfaction is that all the dire predictions that were made at the end of the war about the future of the American economy have not materialized. We are now more than 11 years since the end of the war. We did not have any serious declines in business activities. We had two minor readjustments, in 1948-49, 1953-54. In a free economy like ours, such readjustments must be expected.

"To my way of thinking, a serious decline in business activity, as we had in previous decades, is not in the making. Our economy is a dynamic one and this dynamism is bound to continue for a great many years, and so long as it continues business will remain satisfactory, the standard of living of the people will rise, and the volume of trade is bound to increase.

» Prices will continue to rise, but the increase will not be as pronounced this year as last year. Wages will continue to increase, but on a smaller scale.

1957 will be a year of labor tranquillity and productivity of labor and machinery ought to be higher this year than last year. Money rates will remain high for the next few months and then a change in the money and capital markets may be expected.

The soft goods industries ought to be better than the durable consumer

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President's Page

MORTGAGE INDUSTRY PROBLEMS — NEAR-TERM AND LONG-TERM

IF ANY EVIDENCE is required to support the contention that mortgage lending has become one of the key industries in the American economy, about all one needs do is review events of the past two months when, as every mortgage man knows, our field has been in the limelight of public discussion as almost never before. Congress is deeply concerned about the possibility of a sharp cut in new building and the unfavorable consequences it would have. Adequate financing, Congress believes, is the key. During this two-month period, in speaking engagements before about 25 local mortgage groups and state and national associations in related fields, I have sensed the concern which others share of the continued severe curtailment of mortgage credit. Recently MBA entertained members of the House and Senate Banking and Currency Committees and the House Veterans Affairs Committee in Washington, and it was a rewarding experience for me to see how well informed these legislators are regarding the problems which our industry faces and their desire to arrive at the correct solutions. My personal view, as I have expressed it in engagements across the country, is that money will soon become a little easier all through the credit structure—indeed, there are evidences that this is already occurring. But I have also emphasized that we can expect no return to the days of excessively easy money and mortgage terms.

John F. Austin, Jr.

Actually, what we are faced with at the moment is a fairly immediate solution to the *near-term* problems: additional funds for FNMA—and Congress has already taken the first step in this direction—and action to raise the VA rate which, unless accomplished, will just about mean the end of this program. In this same category, are the possibilities of a large direct lending program and such projects as diversion of the National Service Life Insurance funds into GI loans. In our testimony before the subcommittee on housing of the House Banking and Currency Committee, our Legislative Committee Chairman, Robert Tharpe, strongly emphasized the dangers of these proposals.

And while Congress is considering these problems of the moment, there remain the *long-term* problems, solutions for which MBA has offered reasonable and specific suggestions and all of which are detailed in our Statement of Policy. High on the list is our proposal for modernizing FHA, bringing this estimable and successful agency back in line with its original purpose. It was gratifying to hear from those members of Congress at our dinner in Washington that so many are giving careful and thoughtful consideration to these same long-term objectives. All in all, the period we are living through today—while painful to many from a business standpoint—may well be exactly what we need to focus attention on these long-term problems in the area of mortgage lending where government and private enterprise work together.

And speaking of long-term efforts, there is an Association-sponsored project of truly long-term character of which I should like to offer a few observations. Elsewhere in this issue is an announcement of the successful conclusion of the initial request for funds to finance the Research and Educational Trust Fund of the Mortgage Bankers Association of America. The Fund now has resources to begin its work and there is much to be done. We have been notably successful in our educational work but there are many areas that still challenge our ingenuity and initiative. In research, for and about the mortgage industry, we have scarcely scratched the surface. The Trust Fund is a worthwhile effort of which our Association and our industry can be proud. It was soundly conceived, has been ably managed and well directed to the present point in its development. It merits our continued and full support. It promises great achievements for the benefit of all of us. As a long-term effort, it may well turn out to be of much greater value to us than the solution of many of our present-day immediate problems.

J. F. Austin Jr.

PRESIDENT

TROUBLES FROM POOR APPRAISALS IN THE 20's HAVE WARNING FOR US TODAY

IN OUR never-ending search for that mythical crystal ball in which may be glimpsed a view of the future, appraisers too frequently are inclined to disregard the consequences of past blunders in the valuation of residential real estate for mortgage lending purposes. Lack of appraisal experience in the predepression period is, of course, an understandable excuse for failing on occasions to recognize all of the pitfalls. However, indifference on the part of the appraiser to profit by the mistakes of others should not be tolerated lest we find these same errors in judgment rising to plague us in the future.

A study of residential properties financed by lending institutions in the twenties, later foreclosed and subsequently sold for less than the mortgage indebtedness, has developed interesting information as to some of the factors which contributed to losses in the secondary market. Research in this field is limitless, but even a cursory investigation reveals prominent causes which brought about this condition. In the familiar jargon of the appraisal profession, these causes can be classified as follows:

T. T. Hyde, III

» IMPROPER LAND PLANNING: My opinion is that, over the years, more money has been made and lost in the conversion of raw land to residential usage than in any other field of real estate activity. In the period under discussion, there was little consideration given to market analyses, topographic studies, the adequacy of community facilities, and so forth. Few appraisers and developers then realized that the use of curving streets, adherence to topography, and the preservation of natural features were invaluable in preventing monotony, entirely aside from the financial advantages gained through more satisfactory marketability plus more efficient and economical use of the land.

In that era, land planning was considered a surveying job. Consequently, throughout our land we find "surveyors'" subdivisions laid out according to the familiar checkerboard pattern, many with 25-foot lots which were sold off speculatively. Today, widely scattered ownership, ancient foreclosures, and defective titles are factors which preclude, in most cases, the possibility of vacating old recorded plats in order that the unimproved land may be properly utilized. Land, our most priceless commodity, was prostituted, and it may startle some to know that right now, on a reduced scale, this is still happening. A serious note replaces comedy when we realize that there are those who today ignore the many ways to lose your shirt in the development of real estate:

› Rush out and buy the cheapest piece of raw land available to hell-and-gone away from sewers and water and other civilized conveniences.

› Be sure the land is beautifully wooded with trees too big to uproot and worthless for saw logs and standing on slopes or in low ground where you expect to put in the tile fields for septic tanks.

› Don't bother to find out whether or not septic tanks will work or what has to be done for sewage disposal or water supply to satisfy the health authorities.

› Get way out where you can enjoy low taxes and the full impact of working out your own municipal services such as transportation, garbage removal, police protection, street lighting, and storm water sewers.

› It helps to pick a tract that's flat and low and saturated with water which has no place to go. You can sink a lot of dough in trying to dry the place up by hauling in dirt and by digging canals and burying a lot of big pipes all over the place and down to the river.

› If you like hills, try fooling around with some having plenty of gullies and springs and maybe some underlying rock. It gives your equipment a real work-out, and it's interesting to note the variations that can be achieved in getting the footings in and bringing the foundations up to first floor grades.

› Bulldoze the hell out of everything. Push the topsoil into the creek and cover it up with stumps, tree trunks and rubble topped off with some clay subsoil. Or pile the stuff where it will get all churned up with concrete and trash if it doesn't wash away. You only have to buy 537 cubic yards of topsoil per acre to put back four inches of growing soil. Buying the topsoil, spreading it around, and grassing it over again nice and pretty will cost plenty.

› Pick a tract shaped like a jigsaw puzzle with some of the pieces lost. A lot of land will be hard to get to unless you can deal with your neighbor.

› Never mind the kind of a building site the street layout leaves you with. Just put a street along both sides of any stream and cut through the hills. Fit the lots to the streets afterwards and try adding the cost to the sales

Hindsight is easy—it's foresight that pays off. But let us use a little hindsight and go back to the 20's for another look at some aspects of the poor appraisal judgment which contributed so much to the losses in the resale of residential properties acquired through foreclosure—and taking particular note as to whether there may be some lessons for us today. Accompanying Mr. Hyde in this retrospective view, one can't help but be impressed by some of these guideposts from another day—several look suspiciously like some we have seen recently. The first one we note is Improper Land Planning—"more money has been made and lost in the conversion of raw land to residential usage than in any other field of real estate activity," he contends. And there are others to note equally well. Mr. Hyde is vice president of the First Mortgage Corporation of Richmond.

By T. T. HYDE, III

price. Don't plan. Let the water boy figure it out.

› Change the direction of the streets frequently and create plenty of intersections. That means more culverts and curb inlets. Try some scissor angle intersections, too.

› Put in the cheapest possible street improvements which go to pieces before the subdivision is sold out. That will slow things down for sure.

› Cut your property up to suit your own convenience without consulting local planning authorities.

The writer does not concur in the opinion expressed by some that an appraiser is not usually consulted at the point where he could make a real contribution to land analysis and development for residential usage. Statistics prove that the vast majority of raw land sales are negotiated by individuals whose principal source of income is derived from the urban real estate brokerage business. Since this group comprises a substantial element of the membership of our appraisal organizations, it has become increasingly important that those individuals who specialize in the sale of raw land be on speaking terms with the fundamental principles of land development, although perhaps not specialists in the field.

Only in recent years has special emphasis been given to the importance of intelligent land studies. Therefore, it is understandable why, during the period under discussion, the largest losses, both in number of units and in total dollars, can be traced directly to improper land planning. Fortunately, prudent appraisers and developers today recognize the economies to be gained through careful subdivision analysis and the resultant increase in value of the improved real estate.

›› FUNCTIONAL OBSOLESCENCE: The dubious honor of second place is claimed by this type of depreciation, briefly described as the lack of utilitarian convenience, which, in the case studies, appears in just about every known form. Mention should be made of a few outstanding deficiencies which were most apparent:

› Unsatisfactory room arrangement, not considered serious when loans were made, assumed major proportion when resales were negotiated, particularly in those instances where the cost of correcting the condition could not possibly have been recaptured in the market place.

› Older houses, even though remodeled, did not enjoy a favorable sales climate, and the demand for large homes, especially those in the luxury class, was quite conspicuous by its absence. There was, of course, a better secondary market for attractive homes of orthodox design in the medium price range.

› Larger homes lacking an extra bath proved to be quite unpopular, as well as those designed to accommodate a business office, store, etc., on the first floor, the latter being "neither fish

nor fowl," and, therefore, should have been considered as unattractive security for mortgage financing.

One could go on ad infinitum, but suffice it is to say that had it not been for the advent of HOLC in the early thirties, perhaps even greater losses would have been suffered. Fortunately, this vehicle enabled many holders of delinquent mortgages to "bail out," and foreclosure was thereby averted for the property owners.

» ECONOMIC OBSOLESCENCE: Forces of an external nature exerting an adverse effect on property values closely follows the foregoing in the list of causes for loss.

In this category we find numerous cases of houses located in neighborhoods which had reached the peak of desirability and were on the toboggan slide when appraisals (and mortgage loans) were made. Other common faults were: proximity to churches creating a constant parking problem; subdivisions in the embryonic stage which turned sour; the noise and hazards of heavy traffic; nearness to a railroad, high tension lines, business activity, etc., to mention only a few.

Houses located in a section where a large school attendance was drawn from an adjoining, less desirable area were difficult to market, and understandably so. Those in areas lacking adequate transportation and other neighborhood facilities could not be disposed of advantageously.

The writer does not mean to imply that appraisers for lending institutions should recommend that houses located in proximity to nuisances should be avoided entirely as security for mortgage loan purposes, but rather suggests that the final value conclusion reflect a penalty that would, in his considered opinion, make the subject property acceptable to buyers on resale. The extent to which a particular condition necessitates a penalty is left entirely up to the individual appraiser, and there are no cardinal rules in this respect. It is believed, however, that a little leg work will develop comparable situations on which sales data are available. It is of utmost importance that such conditions be reported, and those who resort to clever photography in an effort to conceal the adverse effect of economic depreciation are only inviting criticism at a later date and the resultant loss of confidence in their appraisal ability.

No attempt can be made to enumerate all of the factors which had a bearing on the final disposition of foreclosed properties, but rather an effort has been made to mention the more important objections affecting resale.

Poor appraisal judgment certainly did "contribute" to losses on resales; but in neither the field of appraising nor any other profession can we expect to attain a utopian atmosphere wherein all participants are experts. It is reasonable to assume, however, that appraisers should profit by past known errors in judgment and persistently observe fundamental concepts in the valuation of residential real estate for mortgage loan purposes.

There are individuals who hold to the adage that "history repeats itself." The writer does not share this belief but recommends out of abundant precaution that one important question be asked in connection with each appraisal assignment: Is the property under appraisement likely to continue to have owner occupancy appeal consistent with debt reduction during the term of the mortgage loan under consideration? Unquestionably, the final value conclusion will be influenced by the appraiser's ability to project his thinking into the realm of the unknown in a conscientious effort to find the answer to this question. In so doing, a service of inestimable value will be rendered to institutional investors represented.

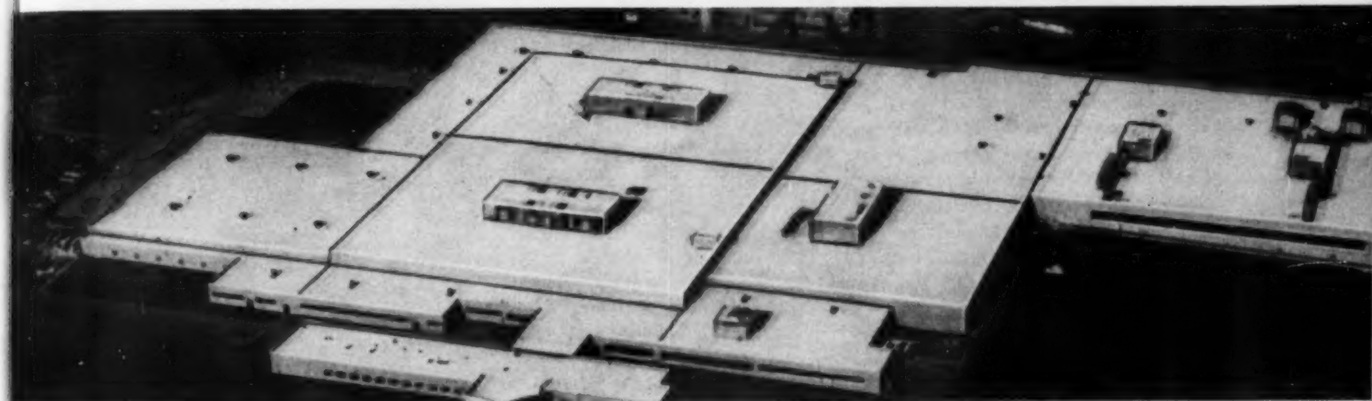
» TWO OF EACH: A significant indication of the heights reached by the level of living in the United States in our prolonged period of prosperity is provided by the growing number of individuals and families who today have two or more important material possessions, like automobiles, television sets, and even homes.

This has been brought about by a combination of factors involved in the sweeping changes that have taken place in American life over the last decade as the result of the dynamic expansion of the economy. Chief among these are the spectacular upgrading of personal income, the great growth of suburban living, increasing size of families, and the expansion of job opportunities.

Some 5 million out of America's 36 million car-owning families own more than one automobile. The growth of suburban living along with rising income have been the big factors in this connection.

Bureau of the Census figures likewise indicate a marked increase in the number of families having more than one home, evidenced by a big rise over recent years in the number of dwelling units classified as seasonal.

AN INVESTOR'S VIEW OF PLANT LOANS



VIA MORTGAGE OR PURCHASE-LEASE

By **ELMER B. HOSKING**

OUR COMPANY has undertaken a program for financing plants by means of a mortgage loan or through the purchase-lease route — and our experience shows it is good business.

Mortgage lending and real estate financing involve consideration of two basic factors: the security itself and the credit of the borrower. In industrial financing, more reliance is placed on credit. When credit is discussed in industrial financing, it is the credit of the company occupying the plant, whether it be the mortgager or the tenant.

Many persons suffer a letdown when they find that no matter how enthusiastic they may be, lenders may not share that enthusiasm because of a lack of credit support. This means that the risk must be a reasonable one consistent with circumstances — with the company of good character and the financial capacity to repay the loan.

A credit checkup includes an analysis of the general reputation of the firm, the type of business done, the length of time in business, its products and whether there is a continuing demand for those products. What is its industry position, its status with customers, suppliers and bankers, and is the financial condition in proper ratio to the proposed financing?

What type of management does the business have? What is its ability and are there good "back-up" men? The ability and permanency of management is as important as the balance sheet. A good history of management with continuity may often overcome balance sheet deficiencies, but a good balance sheet will not and should not overcome poor management.

The earnings history is analyzed with care. Essentially, this is a comparison of adjusted profits and the interest, principal or rent charges which the borrower proposes to undertake. The margin of coverage is considered significant along with the stability of performance and the current trend in earnings as a guide to the feasibility of the proposed investment. A satisfactory history of earnings generally indicates stability and safety. A satisfactory history of earnings, however, may not offset balance sheet deficiencies. Because we have had prosperity for some time past is no indication that this will continue forever.

These observations reflect what one investor looks for in a plant loan, via a mortgage or a purchase-lease. Mr. Hosking is general manager of the mortgage loan and real estate investment department of Prudential which has made a lot of them.

Additionally, a balance sheet analysis is made. This shows the financial condition as it exists and as it will look after the proposed financing is consummated, called the "pro-forma" condition. Ratios in this analysis which usually are considered significant are comparisons of debt with net worth and to working capital, the proportion of net worth invested in fixed assets and the liquidity of a company as determined by its net quick assets and the comparisons of its cash with current loans, with tax liabilities and with total current debt.

Our firm prefers to finance these companies that have sufficient past history to indicate that they can withstand periods of stress. This does not mean that we have not financed smaller and newer companies. By number, our investment portfolio includes many of this type.

As to the type of security itself, the plant the Prudential prefers is a

new, modern, general purpose plant. The desired size in square foot area is dependent upon the economic area. A modern, one-story building having general purpose use, with a square foot area of between 25,000 and 50,000 feet, seems to be the most desirable. This is a generalization, however.

We finance either via the mortgage loan route or the purchase-lease route. Where the vehicle used is a mortgage, our ratio of loan to appraisal is generally 66⅔ per cent. The term loan is flexible. The average loan is for a 15-year term.

Probably the most spectacular development in the real estate market in recent years has been the type of deal generally referred to as purchase-lease, or a sale-leaseback. These terms are somewhat misleading. They probably came into being with the purchase by insurance companies of industrial properties and the immediate leasing of the premises to the seller. The identical situation exists if a building is built for a tenant or where the property is purchased from a third party for lease in its entirety to a tenant where a lease has been previously arranged.

Industry finds this type of financing attractive if for no other reason than that it frees money for operating capital.

In the so-called purchase-lease the property is leased to the tenant on an absolutely net basis. Usually the rental will recapture the entire investment over the lease term with varying yields. In other words, the rental payments are applied first to the predetermined rate of return and the balance of rental payments to reduction in the book value of the real estate. Generally, to be attractive to a lessor, the term of the primary lease must be from 20 to 25 years.

Renewal options are usually granted for periods of 10 years each, sometimes extending 30 to 40 years beyond the primary lease period. Rental rates are dependent somewhat upon the credit of the tenant and the plant. In most cases we prefer fixing the rental at a fairly high figure for the early years of the lease and at a lower rate thereafter.

This is done because the investment can be amortized at a fairly rapid rate, which is important if a specialized building is involved.

Rental rates are either on a level payment basis (a constant rental for each year of the lease) or on a high-low position pattern which is a higher rent for the early years of the lease and a lower rental during the latter part of the term.

There are many types of high-low patterns, but one in common use is the higher rental for a 15-year period and a lower rental for the last 10 years of a 25-year primary lease. The amortization of the investment in the early years on a constant level basis for 25 years amounts to only about 26 per cent during the first 10 years.

This depreciation and write-down is sometimes considered too low. The high-low basis enables a faster write-down during the early term of the lease and this fact, plus the lower rental during the latter part, gives the tenant an attractive average rental during the entire term.

The high-low pattern is preferred by some companies. It gets a lower average rent for one thing. For another, it obligates itself to pay the higher rent during the period which it can foresee high earnings. Thus it provides a measure of security through the lower rental in the years which might not be so productive.

The yield rate to the lender on a purchase-lease transaction is generally higher than the mortgage investment rate for the same property. This is logical because of the higher percentage of investment on the part of the investor.

Now a word of caution at this point. Try to avoid discussions of interest rates or yields with the industrial company you are trying to attract. This is said in fairness to all, including the prospective company. Many deals have been killed through such a discussion. Instead, a talk along the lines of the square foot rental or occupancy cost will be more productive.

In the average 25-year purchase-lease a difference of 1 per cent yield to the investor means a difference of only about six cents a square foot in the rental or occupancy cost. Thus the

margin of jeopardy is greater in a yield discussion. The important thing to stress is that the rental is a fair one for the plant and facilities offered. Furthermore, even an experienced lender cannot, in fairness to everyone, always determine what the interest rate or yield should be in a specific case until it has been studied.

It was mentioned earlier about the property being rented on an absolutely net basis. Aside from its importance to the lender, it is especially so where the equity funds are provided from public subscription and where the owning corporation has no source of income other than that provided by the rental. Unforeseen or increased expenses could bring about a deficit operating situation resulting in a default or the necessity of raising additional funds. It is also essential that the lease be firm with no escape or cancellation clauses. Situations of possible prepaid rent by the tenant should be avoided. An investor must necessarily take a dim view of acquiring a property with no tenant in it, or with a tenant in possession under no obligation to pay rent for a period of time. There are other clauses such as fire and condemnation which can be stumbling blocks. Each case has its own problems and must be treated individually.

The important thing is that the lease is a permanent instrument which must be satisfactory to the lender.

Insofar as outright repurchase options are concerned, we do not grant them. In the first place, a repurchase option could be considered nothing but 100 per cent mortgage financing. In the second place, it is obvious that attractive real estate would always be repurchased but unattractive real estate would not.

In the so-called purchase-lease transaction a stronger degree of credit support is required than in the ordinary mortgage transaction. It is not sound business to invest money in a plant which is equivalent to the net worth of the company itself. Further, my company does not wish to engage in a purchase-lease transaction with a company of relatively new vintage. It is felt generally that a company should have been tested under adverse conditions.

Generally speaking, it is our opinion that a company should have a net worth of at least $1,000,000 to qualify for a purchase-lease transaction. At this size, and above, there should be sufficient in the balance sheet to take care of some lean years.

In industrial financing, both loans and purchase-leases, there are sometimes included such things as protective covenants. There can be many such restrictive covenants, depending upon the circumstances in individual cases. The more common of these are used to preserve adequate working capital by preventing, insofar as possible, some of the controllable circumstances which deplete working capital.

Restrictions on dividends, no prepurchases on its own stock and provisions controlling the increase of officers' salaries would fall in this category. Other covenants might restrict additional long-term debt without the lender's consent. Still another will restrict short-term borrowings to seasonal requirements, said debts to be unsecured and completely paid off at least once a year and remain so for a period of 60-90 days. All these are in line with sound financial policy and may be as helpful to the borrower or lessee as they are to the lender.

EVERYTHING ADDS UP

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goods industries. Finally, to me the greatest satisfaction is that all the dire predictions that were made at the end of the war about the future of the American economy have not materialized. We are now more than 11 years since the end of the war. We did not have any serious declines in business activities. We had two minor readjustments, in 1948-49, 1953-54. In a free economy like ours, such readjustments must be expected.

To my way of thinking, a serious decline in business activity, as we had in previous decades, is not in the making. Our economy is a dynamic one and this dynamism is bound to continue for a great many years, and so long as it continues business will remain satisfactory, the standard of living of the people will rise, and the volume of trade is bound to increase.

Buildings Don't Write Checks

By **ROBERT S. ROBERTSON**

The time may well be here for some plain talk about putting money into real estate, either as a mortgagee or an equity owner. For the purpose of these observations, it is assumed that both lender and borrower are in a cooperative enterprise and that there is no basic conflict of position, that neither is trying to profit at the expense of his partner in a joint venture.

At least 90 per cent of the current published discussion regarding real estate financing revolves around the *rate of interest.* The other 10 per cent relates to certain loan provisions —required down payments, term of years, governmental guarantees, prepayment privileges, foreclosure laws, etc. There is scarcely any discussion of the fundamentals of investing in real estate. In the long run it is these unmentioned (and perhaps unmentionable) economic facts that will determine the outcome of the original investment which, inevitably, will be proven wise or unwise, satisfactory or unsatisfactory, profitable or unprofitable.

R. S. Robertson

In the first place, there seems to be a general misconception about value, perhaps even a mass delusion that real estate fluctuates only upward in value and never downward. Older hands remember the boom of the early Twenties and the bust of the late Twenties and Thirties. The boom of the Forties and Fifties has been double-barreled — land, labor and materials have advanced not only in cost, but at prices that have advanced faster than the common denominator — currency — has depreciated. Whether or not the value of the dollar is to remain constant or otherwise is a matter each investor must evaluate for himself. It is sufficient to say, however, that a new residence appraised as of today at, say, $15,000 would probably have been appraised at $7,500 in 1926 and at $5,000 in 1933. Will the appraisal be $20,000 in 1967? The point is that *values* fluctuate with *prices* and prices fluctuate with *conditions*—the national economy, wages, employment, production, currency manipulation, supply and demand, local factors and even the weather. One thing is certain above all else: The real estate investor(s) must pay interest, cost, taxes, maintenance, heating, utilities and other charges, whether the values be high or low, otherwise he must sell or abandon his property. The building itself cannot write a check or fix a roof.

Suppose a young man of 30 decides to buy a house for $15,000. He needs shelter for his family; he becomes a responsible citizen and a taxpayer. There is much good and little bad in the transaction. If he is fortunate, he pays cash and thereafter his occupancy costs are only maintenance, taxes and insurance. He made an investment which, *in terms of a stable dollar,* will probably never be worth much more and which will normally become less valuable because of the house wearing out and the gradual deterioration of the neighborhood. The decision was entirely his and the consequences, good or bad, are attributable solely to him and his family.

However, in this country since World War II, a doctrine has been laid down that certain citizens and taxpayers are obligated to provide other citizens and taxpayers with home ownership on "easy terms". Easy terms are deemed to be (1) a minimum down payment, (2) a low interest rate and (3) a maximum number of years in which to pay the loan. Little or nothing is said about the cost of land, labor and materials which have been skyrocketing for over 10 years; but the difference between 5 per cent and 6 per cent interest on a $10,000 loan amortized over 20 years is $5.70 per month or $68.40 per year and $1,368.00 spread over 20 years. The difference of $5.70 per month, therefore, does not appear to be the determining factor in appraising a transaction of this size. The 1955-1956 increase of about 10 per cent in basic construction costs alone injected a larger element of

What are the economic pitfalls in "easy terms" for real estate loans? The author contends that too much emphasis is being placed currently on the interest rate and not enough on other factors which, in the long run, are more important to both lenders and borrowers whose objectives are mutual rather than conflicting, in many respects. Robertson is vice president of Leighly & Robertson, Inc., Chicago, financial consultants specializing in financial analysis and private placement of notes, bonds, debentures and mortgages for industrial concerns. He was a security analyst in New York for 14 years and subsequently an officer and director of several companies.

cost than a 1 per cent increase in interest rates. Who knows but that the *increase* in local real estate taxes during the next few years will not also add more than $5.70 in monthly carrying charges and still more later, and into the future?

Getting back to our premise that a real estate investment is a joint venture between lender and borrower—how should the risk be divided properly? What is a proper initial payment? Is it three per cent, 10 per cent or 30 per cent on a $15,000 house? The following tabulation is based upon a twenty-year loan at 5 per cent interest:

	3%	10%	30%
Down Payment	$ 450	$ 1,500	$ 4,500
Loan Required	14,550	13,500	10,500
Total	$15,000	$15,000	$15,000
Monthly Payment	$96.03	$89.10	$69.30

There are just two important considerations: First, if you were paid a salary for investing the savings of others entrusted to you, which transaction would you select? Second, it the next major fluctuation in values is downward, who has made whom a loan on "easy terms" regardless of interest rates or other provisions?

The greatest threat of general and widespread devaluation of residential real estate could come about from a surplus of houses. A surplus of houses could be created by "easy terms". In this country, the investor now has the freedom of selection of his investments. Real estate should stand on its own merits in comparison with investment opportunities available in municipal, railroad, industrial and government securities. In the bloodless calculations of the market place, the necessity for a guarantee of any investment is an admission of some fundamental weakness in the security itself. The principles of *caveat emptor* and *supply and demand* cannot be replaced no matter what legislation is enacted even in this enlightened age.

In conclusion, it is submitted that those interested in obtaining loans on real estate should present logical and convincing reasons in their solicitation of investment funds—not a plea for "easy terms"; but why their proposal is equal or superior to some other available form of investment, both as to the security itself and in the return on the money put out at risk.

HOW WE PROGRESS

(Continued from page 27)

present tax system cannot be regarded as inconsistent with economic growth. This seems a shortsighted view. First, there are no advantages in the present tax system which justify us in courting the very real risk that, in the long run it will seriously impair our future rate of growth. Second, while we may be pleased with the growth rates of recent years, we have not achieved as rapid a rate of growth as our economy could achieve or, indeed, as may be necessary for our survival in view of the reported rapid growth rates in the U. S. S. R.

There are, in this situation, two possible courses of action. First, we can try to reduce expenditures, or at least hold down their rate of growth, so that rising levels of revenue will permit a general tax reduction within the confines of which basic reform of the tax system could be accomplished. Second, and more difficult, but necessary if we cannot hold expenditures down, we must seek to reform our tax system by altering its structure without substantially reducing the revenue.

Suggestions to hold down Federal expenditures always run into the question, "Where will you cut?" I recognize that this is a difficult question. CED is only beginning its careful analysis of the 1958 budget, and I am not now in a position to offer specific suggestions for reducing the 1958 budget. However, I am impressed by the tendency for expenditures to rise automatically by amounts sufficient to absorb all the additional revenue that results not only from economic growth, but also from inflation.

I believe that, if the additional revenues had not been so easily forthcoming—had, for example, to be secured by raising tax rates — ways would have been found to restrain expenditures without impairing national security or other vital national objectives. Also, if proper weight had been given to the importance of tax reduction the same result would have followed.

A first look at the Budget impels me to ask a number of questions. Are we now committed to an annual expenditure of $5 billion for aids to agriculture, and, if so, why? Why are we now planning to have FNMA buy $1.7 billion of mortgages in the two fiscal years, 1957 and 1958? Have plans for making FNMA a private, mutual enterprise been abandoned? What has happened to the theory that as social insurance benefits increase public assistance expenditures by the Federal Government will decline? Between fiscal 1948 and fiscal 1958 social security benefits will have risen from $500 million to $7.2 billion, but public assistance expenditures will have more than doubled, from $0.7 billion to $1.7 billion.

What has happened also to the general consensus in this country that the States and local governments should assume greater responsibility for financing and administering programs involving local matters? The present Budget indicates that Federal aid to the States will have tripled between fiscal years 1948 and 1958, from $1.7 billion to $5.5 billion. On top of this, the Budget also projects a four-year program of grants and loans to the States amounting to $2 billion for the construction of schools. I do not want to give the impression that a school program is not needed. On the contrary, there is clear evidence of a shortage of classrooms and teachers. But, some method must be found to arrest the growth of Federal aid programs if we are to succeed in bringing down the high Federal tax rates. Should not the states and localities be capable of helping toward this end by their own school construction financing? The very existence of the high Federal tax rate tends, however, to perpetuate high Federal spending, for high Federal taxes make it harder for States and localities to raise funds to finance their own essential services.

The Federal government is now planning a substantial increase in public works construction in the face of the heavy demands for materials and labor in this industry by the private sector of the economy. The Budget indicates that total expenditures for Federal public works are estimated to increase from $4.1 billion in fiscal year 1956 to $6.3 billion in 1958. Un-

der present circumstances, it is essential to postpone to future years all but the most vital of projects. The alternative is further increase in construction costs which will reduce what the government, private individuals and businesses get for their dollars.

The largest part of the present Budget on the disbursement side is for national security. The justification for this rests basically on the uncertain condition of the world and particularly the threat of Communism. There is no way in which the figures representing national defense items can be analyzed completely by an outsider. Even those who are entitled to full information, such as the Armed Services Committees of the Congress, and the civilian and military leaders in the Pentagon would be unable to prove conclusively that the estimates used are the right ones. Military budgets develop largely out of certain assumptions as to the strategy and tactics required to defend the country. These assumptions are always debatable and exceptionally difficult to make today because we are in a period of rapid evolution.

If the present level of national security expenditures must be accepted as the best judgment that can be applied, one is confronted with a question which we have not been willing to face. The question is: if we must devote such a high proportion of our Budget to defense, with the possibility, if not the probability, of enlarging it, is it wise and feasible to increase our non-defense expenditures in the short run so far and so fast?

I realize that, with commitments already made, it is going to be difficult to do much about 1958 expenditures. But we should be taking steps now to bring future expenditures under better control.

What if we cannot or do not make room for a general tax reduction? Then we should definitely consider something that has never been done in the history of Federal Government—a major tax revision and reform without substantial tax reduction. The following possibility, which has not had prior or present endorsement by the Committee for Economic Development, deserves serious consideration:

» Reduce the personal income tax across the board by some worthwhile amount.

» Eliminate the present selective excise taxes except those on alcoholic beverages and tobacco, and the highway taxes.

» Recoup the revenue lost by eliminating some of the many kinds of exclusions and deductions that now reduce income subject to tax and, to the extent necessary, by imposing a general consumption tax. It is to be hoped that some overall expenditure reduction would be available in order to assure that the rate of the general consumption tax would be kept as low as possible.

Reduction and revision of the personal income tax would do much to restore morale in the country in respect to taxes. It might and probably would increase somewhat the amount of money that was saved and invested. Some of these changes might, in part, reduce slightly consumer spending. In any event, consideration of this line of tax reform would bring squarely before the country the opportunity to debate in the Congress both the inequity of the present personal income tax structure and the magnitude of our fiscal problems. Certainly we cannot drift along with the present tax system which no one likes but which only survives in the absence of a national consensus on how to change it.

In the last year the demand for credit of all kinds—from businesses, home buyers and state and local governments—has outrun the supply of funds available from current savings. As a result, credit has become more expensive and harder to get. The Federal Reserve has not generally supplied the increased reserves on which banks could expand credit beyond the amounts that individuals and businesses were willing to save. By following this policy the Federal Reserve prevented the inflation of 1956 from being much worse than it actually was.

While the Federal Reserve was following correct policy, it began to appear as 1956 wore on that the policy did not have the public support and understanding that it deserved and required. It is this fact, more than anything else, that now calls for the establishment of a new National Monetary Commission. We cannot expect a public body like the Federal Reserve to continue to adhere to an anti-inflationary policy if the public

actively resents the discipline such a policy imposes.

The main complaint about monetary policy in the past year has not been that it was too tight in general but that it "discriminated" against certain classes of borrowers — especially homebuilders, small businesses and school districts. Of course it is true that the effect of credit shortage will be felt most seriously by those lines of activity that are most dependent upon borrowed funds. Whether this by itself deserves to be called discrimination seems to me questionable. However, the validity of these complaints should be the subject of careful study, and further comment here is limited to a few brief observations.

>> The problem of tight money is only likely to arise when the economy is operating near capacity. In such conditions, promoting certain kinds of investment, like housing, necessarily results in less of something else, like factories, or office buildings or even automobiles. In a fully employed economy, we do not get something for nothing.

>> Fixing maximum interest rates for specified purposes does not make money for those purposes cheaply available. It may make money entirely unavailable. We have had an instructive lesson on this point in the mortgage field.

>> We should avoid like the plague any commitment of the Federal Reserve to support the price of any asset. One of the most worrisome aspects of current proposals for influencing interest rates is the superficially logical progression from pegging mortgages at 4 per cent to pegging school bonds at 3½ per cent to pegging Federal securities at 3 per cent. Once we reach this point the inflationary fat is in the fire for sure. On this point, also, we have had sad experience.

>> Whatever discriminations or other difficulties may be found in the operation of a tight money policy they are small compared to the evils of inflation. We cannot accept inflation, and inflationary policy, as the preferred alternative to monetary restriction.

>> With the possible exception of the labor market, no other market is more important to a free economy than the capital market. If the government determines who get capital and on what terms, the government controls the birth and growth of all businesses. Only the most compelling evidence of necessity should lead the government to intervene in this market with selective controls or preferences.

The President's Economic Report, and other recent messages, call attention to the basic dilemma of stabilization policy. Suppose that, as our economy is now organized, high employment and general price stability are incompatible. This would mean that when employment is at a satisfactory high level, wage rates tend to rise faster than productivity, on the average, and prices on the average also tend to rise, whether because of the higher wage rates or for some other reason. Then a monetary and fiscal policy to prevent inflation would succeed only if it brought about excessive unemployment. And a policy to maintain high employment would inevitably lead to inflation.

In the present state of our knowledge, or lack of knowledge, it would be unwise to base monetary and fiscal policy on the assumption that high employment and general price stability are incompatible. For one thing, this would be too easy an excuse for failure to pursue the most anti-inflationary policy that is consistent with high employment.

Moreover, the surest way to develop the problem would be to act as if it already exists. If we stand ready to inflate the economy to take care of any tendency of wages and prices to rise, wages and prices will certainly behave in the way we fear.

At the same time we must take seriously the possibility that the dilemma does exist now or may arise in the future. We must consider, not how we will choose between high employment and a stable dollar, but how we will make the two compatible.

In addition to monetary and fiscal restraints, there are three general approaches to this problem: direct controls of wages and prices, self-restraint by labor and business, and competition. I assume that we can rule out direct controls. We do not want to solve other problems by giving up freedom. We have every right to expect responsible behavior from labor unions and businesses. But in a matter of such fundamental gravity, we cannot rely exclusively on that. Responsible behavior, while clear enough on the average, is terribly difficult to define in particular cases. If our economy as now organized tends to generate inflation under conditions of high employment, we shall need the most searching reappraisal of our economic organization. We shall have to do everything we can to strengthen the forces of competition in our system that tend to hold prices down.

Time of Crisis for a Correspondent

Most of us can meet a situation we know we might logically expect at some time or other. And a situation we realize could happen under certain conditions we can plan for in a preliminary way. But it is the unforeseen emergency which tests our mettle and our wits. This is a page from the experience of a correspondent who faced something he could never have anticipated, and how he analyzed his correspondent responsibility.

Gutted homes show desolation after twister struck. Despite tornado's ruthlessness with physical objects, no one was killed. Tornadoes occur rarely in the Chicago metropolitan area, this being only the fourth recorded by the Weather Bureau.

THE vital role a mortgage correspondent can play in event of a disaster was highlighted last summer in the wake of a tornado which struck Tinley Park, Illinois.

The freak twister (it caused severe damage in only one block) swooped through a row of ranch-type homes on one side of a street in the suburban Chicago community. Four houses were destroyed completely, while lesser damage was suffered by 29 others.

Fortunately, casualties were few and not serious—cuts and bruises for three youngsters. However, 75 persons were temporarily homeless.

Percy Wilson Mortgage and Finance Corp., Chicago, learned of the destruction within minutes from the builder who had erected the homes. Not only had the Wilson firm arranged financing for the homes, but through its affiliated insurance agency had written coverage for 30 of the houses involved.

Obviously, this was a time for action on the part of the Wilson firm.

Aside from the immediate needs of the victims and the eventual restoration of their property, there was the serious problem of the mortgage holder whose investment must be protected.

Although they have a legal right to do so, few investors would elect to take a cash settlement and call the mortgage "quits". They would prefer to help the homeowner get started again, keep his good will, and maintain a continuity of the mortgage investment.

Therefore mortgagor and mortgagee have a meeting of minds: They are primarily concerned with the restoration of the original property values in the rebuilt structure.

Yet, institutional investors are not set up to supervise home construction. For new buildings, they make commitments contingent upon satisfactory completion of lien-free property. They will not advance money for construction.

If their money already is in the property, and they decide to continue the investment, they run the same risks as does the homeowner in dealing with contractors, with whom misunderstandings are likely to occur.

The builder from whom the homeowner bought the house is completely out of the picture. The homeowner usually is uninformed about the intricacies of contracting and could seriously jeopardize his equity if left to chart the reconstruction of his house alone.

It is quickly apparent that a third, interested party must step in to see that the house is restored to the complete satisfaction of all concerned. And in this case, the role of an experienced, capable, and conscientious go-between was filled by the loan correspondent, Percy Wilson Mortgage & Finance Corp.

The Wilson firm's first action was to notify the insurers and speed its own insurance manager to the scene. He assured the families they would be taken care of and explained the benefits they were eligible to receive.

Fortunately, all but two of the 33 families affected had followed the advice of the Wilson agency and purchased Homeowner's policies. This "package" plan covered not only replacement costs and contents, but provided for additional living expenses while the homes were being repaired.

This reassurance, of course, greatly lessened the shock for the families.

The next move was for all claimants and the investor to name Wilson as their representative to disburse the insurance proceeds as reconstruction progressed. Each owner endorsed the insurance company drafts to Wilson as the representative of the investor.

Since such checks are held until all repairs are made, Wilson stepped in to provide its interim construction financing facilities for payouts to contractors while work was in progress. A contract between owner and builder, bound by a 100 per cent performance bond, was signed for the four total destruction cases. Disbursements were made as the construction progressed on presentation of the contractor's sworn statement, satisfactory lien waivers, and VA inspection reports.

During the reconstruction period, Wilson representatives also were inspecting the property.

All insurance on the property was automatically reinstated or kept in force.

The Wilson firm charged no fee for handling payouts, although this service required a large amount of paper work, money transactions, and responsibility. Mortgagor, investor, and insurance company all received help that would have been very costly if provided by an outside agency. It would be impossible to calculate the saving to all parties of time and trouble.

The four total property losses amounted to $12,000 each. Settlements for partial loss ranged from $500 to $3,000.

The insurers paid out a total of $90,000 including additional living expense allowances.

At this point, there is little evidence remaining that a tornado visited Tinley Park, thanks to the teamwork of investor, homeowner, insurance company, and loan correspondent.

A Firm Exhibits

Quite frequently these days mortgage companies are buying booth space at conventions—and then finding themselves stuck without an idea as to what to put in it or how to plan it. At first, it appears to be a tough job but it can be done, as one firm has proved.

Carnival-type booths done in brilliant colors with attractive attendants "shilling" for the display have been attracting considerable attention to the J. I. Kislak Mortgage Corporation exhibits at trade conventions for the past year and a half. In 1955 at the Annual Convention of the New Jersey Association of Real Estate Boards, the Corporation decided to try something new rather than occupy the space with the regular fare of lighted signs and tables piled with literature. They set up a shooting gallery equipped with guns which shot ping-pong balls, bull's eye target and prizes for hitting the bell. The same booth was used with equal success later at the New Jersey Savings and Loan League Convention.

At the same 1956 Spring Convention Kislak constructed a small practice golf green which went so well with the bankers that the Mortgage Company followed up with the same idea for the 1956 Convention of the New Jersey Association of Real Estate Boards. However, the golf idea was considerably enlarged and this time the display was expanded to a four hole miniature golf course, 43 by 23 feet, in the lobby.

Far from being an out and out playground for fun-loving conventioneers, the booths have attracted people to a single location where Kislak representatives can meet them and discuss business. Each booth has had a section specifically set aside with chairs, tables and informative literature for just that purpose.

"The strong pressures of basic demand lean very heavily on the side of an upward movement in housing. We have to recognize that we're a big country now, and that a million-house year isn't the colossal thing we used to believe it was—rather, that a million houses a year is a pretty poor showing."—George Cline Smith

OUR CHICAGO CONFERENCE HEARD THAT

Money May Get Easier

The spotlight was principally on money—why it has become harder to come by than ever before in a generation, when the restrictions which impede its flow may be relaxed and what — in the long run — can the country do to get enough of it to finance the growth and expansion which lie ahead. That was the main theme of MBA's 1957 opener in its schedule of cross-country meetings, the Chicago Conference. The side roads of discussion led to the seemingly eternal VA question, the possibility of a downgrading in FHA terms and all the other related problems—of which, it seems to many, the mortgage industry has more to contend with now than ever before.

That we may have passed the peak of this period on tight money was the opinion on quite a number. MBA President John F. Austin, Jr., held out a ray of hope.

"Through March, I expect to see an extremely tight money market, because of the very high volume of high-yielding corporate issues that will be brought out, the heavy seasonal demands for funds culminating at the March 15 tax deadline, plus the Federal Reserve's still firm position that inflation is a pressing danger. After the first quarter of the year I think we will see an easing of the situation because tight money has already had its desired effect, not only in the housing sphere, but also in plant expansion and possibly even in consumer buying.

"As a result of the drop in residential building, as well as the now probable easing of industrial and business demands for capital, institutional investors are likely to find themselves with more funds than their year end estimates indicated. In such a case, the Federal Reserve would no longer feel obligated to keep its present tight rein on bank credit.

"This prospect indicates that we will see a somewhat easier situation ahead—a situation of which the mortgage market should be able to take swifter advantage than the bond market because of the builder's ability and need to increase production quite rapidly. I do not foresee a period of easy money by any means—more an easing of our present situation. It is altogether probable that we stand on the threshhold of a new economic era—as has been voiced by many others, but for diverse reasons: it may well be an era in which we have a chronic shortage of money—an atmosphere that we have not known for some time but an atmosphere in which we can live, prosper and progress. The same laws will continue to apply—even more so than has been the case recently—the forces of supply and demand will function as they have historically."

But the pressure for funds will be with us for some time to come—how long, no one can guess. With the demand for credit continuing as strong this year as it was during 1956, even a small change in the amount of funds available for investment can mean the difference between abatement or intensification of inflationary pressures, George W. Mitchell, vice president of the Federal Reserve Bank of Chicago, declared.

"In 1956, consumer savings made up more than half of the $50 billion total registered for that year. The remainder was divided between business and governmental bodies.

"While individuals' savings in total increased only slightly from 1955 to 1956, the form in which savings were held shifted measurably. Consumers put an increasing proportion of their savings in financial assets or a reduction in financial liabilities. They transferred their preference from acquisition of durable goods and homes to the accumulation of bank deposits, insurance reserves and Government securities and the repayment of debt. This was an important factor in meeting the growing financing requirements for business investment in 1956.

"The shift in the form of individual savings may have resulted from several factors. Rising interest rates may have encouraged consumers to put a bigger share of their assets in financial holdings. Businesses, in actively seeking funds to carry out their capital programs, may not only have pushed up rates but also captured a larger share of the credit available, thus cutting down on consumer purchases of those items typically financed in part by borrowing.

"In addition, the shift toward financial savings may reflect individuals' reaction both to the 1955 upsurge in the purchases of durables and new homes and increase in consumer debt. Outstanding obligations of consumers

Question of Insurance

A look at insurance from the mortgage banker's viewpoint — and his profits—importance of it in a mortgage operation and how we ought to regard it in our business was the discussion topic the Young Men's Activities Committee selected for its session at the Midwestern Mortgage Conference. Moderators at the meeting included Joe Jack Merriman, vice president, Merriman Mortgage Co., Kansas City, Mo.; John H. Scott, Scott Mortgage Co., Pittsburgh; and Jack L. Dixon, treasurer, Charles B. Williams Insurance Agency, Kansas City, Mo.

Above, Mr. Merriman with Mr. Scott discussing the implications of certain judicial decisions affecting our insurance operations.

» THEY WERE THERE: Above photos (clockwise) show, first, MBA President John F. Austin, Jr., second from right, with Walter C. Nelson, Minneapolis, Miles L. Colean, Washington, D. C., E. R. Haley, Des Moines, and Bentley G. McCloud, Jr., Chicago. Next, MBA Secretary George H. Patterson, center, flanked on the left by D. Richard Mead, Jr. and Roger N. Terrell, both of Miami Beach; and, right, J. J. Heflin, Jr., and Carl A. Robinson, Memphis. Lower right, James E. McQuire, Boston, Herman P. Geiger, Canton, Hiram Jordan, Colorado Springs, Glenn Justice, Dallas, W. Milton Farrell, Boston; lower left, George Brady, Washington, D. C., Howard N. Nielson, Hartford, Wm. R. Aydelott, Oakland, J. C. Henze, Detroit.

In photos below, also clockwise, first, four Nebraskans, Albert R. Stelling, Omaha, Lynn Cox, Lincoln, William L. Otis and Charles A. Rasmussen, both of Omaha. Next, the MBA Registration Desk in full swing. Below right, four program participants, Hon. Ed Edmondson, Representative, State of Oklahoma, George W. Mitchell, Federal Reserve Bank of Chicago, Edward E. Wendell, assistant to president, FNMA, Charles E. Sigety, FHA Deputy Commissioner. Final photo, Richard J. Carbonneau, Racine, Jack W. Townes, Fort Worth, Bart M. Foster, Minneapolis, O. A. Reiners, Chicago. About 1,000 attended MBA's Chicago Conference this year.

increased $19 billion in 1955, which boosted repayments last year by $4 billion, or one-quarter the gain in disposable income.

"These shifts in individuals' savings demonstrate the mobility of credit in moving into those areas in which the demand is strongest. Certainly, loanable funds can be rechanneled much more easily than machinery or manpower. The decline in auto production last year, for example, meant a substantial increase in unemployment in Detroit and the surrounding area. Yet, the funds made available by the slower growth in consumer borrowing was quickly absorbed by other sectors with expanding needs.

"As we move into 1957, the over-all demand for credit continues to show strength. Weakness in some sectors is offset by rising demand in others, accentuated by efforts to bolster business and individuals' liquidity positions.

"Looking at the year from the standpoint of saving trends, it appears that while the saving of government bodies increased sharply from 1954 to 1955, and again rose in 1956, the outlook is for a slide-off in their contribution to the total this year. State and local bodies have a large backlog of projects that cannot be financed out of tax receipts. For the Federal Government, moreover, a decline in its cash surplus is anticipated."

Can't Expect Boom of Past to Go On Forever

Maybe we need a breather, a pause to reflect, to marshall our forces, to take a rest from the furious pace at which the nation's economy has been moving in recent years. No business boom could possibly maintain the pace which this country set in 1955 and 1956 and if during the first quarter of 1957, the evidences of a slowdown are bonafide, then it is a good thing for long-term prosperity, Dr. G. Rowland Collins, dean of the graduate school of business administration of New York University, told the conference.

"Experience since the New Year seems to indicate that the over-all economy which has been chugging along at full speed for more than two years is losing some of its steam. The evidence appears to be accumulating.

"Residential building is continuing to decline. Contract awards for new industrial plant construction have slipped down by almost 30 per cent. New orders for machine tools are slumping. The demands for steel sheet and strip is declining. Auto sales are sagging at least below optimistic expectations. Sales of paperboard — a primary packaging material—are off. TV and appliance sales lag. And a cutback in TV set production has been implemented. Slipping cotton cloth prices underscore a weakness in textiles. Prices ease in the key commodities of steel scrap, aluminum, and copper. And what is probably more significant, carloadings are running well under the early levels of 1956. Declines are slowing up in the volume of raw materials and finished products loaded into railroad cars and trucks for shipment to industrial and commercial users and to consumers.

"January employment moved down beyond seasonal expectations. The stock market took a couple of sharp kicks in its backside and still has not been able to regain its complete composure. And we have had our hair curled on at least two important occasions, although Secretary Humphrey's statement of confidence in the near term did send the market up.

"These developing bearish factors taken together, have certainly operated in recent weeks to produce in some quarters, at least, a mild form of pessimistic jitters. We are increasingly hearing the comment that the boom is showing signs of wear and tear—that it is running out of fuel.

"With the history of the last two years in mind—1955, the year of the Consumer, and 1956, the year of the Capital Spender—some extremely vocal forecasters are now saying that the soberest fact with which we have to grapple is that nowhere in sight ahead in calendar 1957 is there an identifiable oncoming strength or a new impetus that seems certain to dominate the course of business or to give it a new explosive fillip, a 'giant step' forward and upward.

"With that statement I violently disagree. The fact that some new explosive force for the balance of 1957 is not in sight is a good omen—not a bad one. Our economy has been working at almost full capacity. It has been laboring heavily and straining at every aching and creaking joint. If an explosive oncoming fillip were to appear in the short term something would have to give or the brakes on inflation would really smoke and the one thing that would shoot up sharply would be prices.

"Seriously speaking, no business boom can maintain the pace our overall economy set for itself in 1955 and in 1956 without a sometime interruption in order to consolidate forces for a resumption of a forward trend. Our economic goal is sustainable growth with stability of purchasing power. If we are really approaching a flattening out period when the over-all economy will roll along restfully on a plateau for some months, such a development could well be a good thing. A free market economy always has within its structure a considerable potency for self correction. It is far better to permit the free market economy to make its own correction than to hypo it with inflationary drugs the moment it slows its pace because the new injection could create very real dangers of a sudden and sharp deflation at some time in the future.

"As this quarter closes, Federal Reserve policy will bear careful watching. If business spending and building spending turn down as we move along into Spring and no new source of demand for loanable funds appears, we can be sure that the Reserve authorities will move toward an easier credit policy. This change will be manifested first in the purchase of bills in the open market. And once the Reserve begins to pump additional reserves into the commercial banks a sharp change in the attitude of the banks toward lending and investing will take place and will exert an easing influence on the mortgage market.

"The current year, then, could well witness a marked lessening of the tightness in the mortgage market if the trends in the business picture remain dominant."

As for the VA matter, eventually the Congress will have to face up to the fact that—unpleasant as it may be for some—positive definite action will have to be taken. Little or no future G.I. housing is in prospect if the mortgage interest rate for VA loans

is not increased to 5 per cent and, by some device or other, the possibilities are strong that the Congress will have to take this action, Representative Ed Edmondson from Oklahoma said.

"The pressures are mounting to do something about the G.I. housing situation," he declared, "and in some way or other these pressures will have to be met by Congress. We will have to get the 5 per cent interest rate to permit G.I. mortgage loans to be made or it will have to be done in some indirect way."

Home building must recognize that the sellers' market has gone and, in the future, the element of price will be a dominant motivating influence in the industry, thus opening the field of prefabricated manufacture more than ever in the past, James R. Price, president of National Homes Corporation, told the Conference.

"It is obvious that we are now in a buyers' market. There no longer is a buyer for every home, regardless of its price and quality. Consequently, the savings that we are able to offer home buyers in the price and the advantages that they get in the quality of their homes are more important than ever before.

"The leadership of the prefabricated home manufacturers is becoming more clearly established as buyer selectivity grows. For example, it already is a recognized fact that we are able, because of our volume production, to retain the country's finest architects. As a result, we are now offering superior styling in a great variety of designs and plans. No single builder could hope to match the attractive choices that we are able to offer home buyers. Whether these buyers spend $10,000 or $100,000 for their homes, they have the very best architectural services obtainable.

"The high structural quality of prefabricated homes is standardized. It is built into these homes through the modern manufacturing methods that we use and assured by the quality control system that we maintain throughout our plants. This quality is a proven value, because our homes are tested by the best-qualified laboratories in the country, and they bear the approval of the leading code groups. What's more, their soundness is the reason that so many great lending institutions throughout the nation feel that they can wisely invest the money of their depositors in mortgages on these homes.

"As a result of the many advances we have made, there no longer is any question about the acceptance of prefabricated homes. After making a survey of the first 100,000 National Homes families, Elmo Roper reported: 'In our experience, no product has had a higher percentage of customer approval than National Homes.' Nine out of ten owners said they would recommend a National home to friends or relatives whose needs and circumstances were similar to their own."

While Farm Loan Debt Is Increasing, There Is Stability in This Area of Our Economy

The economic upheaval that triggered the last great depression in this country — financial troubles on the farm—are not with us today and it appears that, basically, there is no cause for alarm in the present size of the farm mortgage debt, Thomas A. Maxwell, Jr., deputy governor and director of the land bank service of the Farm Credit Administration, said in his address at the Farm Mortgage Clinic which preceded our Midwestern Mortgage Conference.

"On January 1, 1957, our total farm mortgage debt amounted to $9.8 billion. This is about $2 billion less than the all-time high of 1923 but $1.3 billion more than in 1933—a time of real difficulty. However, the present debt is just 9.2 per cent of the value of farm land and buildings whereas in 1933 the smaller debt was equal to 27 per cent of the then value of farm land and buildings. Thus, the present debt is only one-third as large as it was in 1933.

"Furthermore, in 1933 about 11 cents out of each dollar spent for farm operating expenses went to pay interest on farm mortgages. In 1956, this figure was only 2.1 cents, so that on this basis the present debt is only one-fifth as large as in 1933.

"Another comparison is how much net farm income would be required to pay the debt. In 1933 it would have taken the net farm income for over 3 years to pay the debt, whereas, presently the net farm income for 10 months would pay the debt. By this comparison the debt is less than one-third as large as 1933.

Deputy Governor Maxwell with Roy C. Johnson, chairman of the MBA Farm Loan Committee. Below, speakers' table at the Farm Mortgage Clinic luncheon.

"This would be a fine comparison if these averages were representative but we know they are not. There are many farmers faced with drouth where real debt problems exist. There are also many farmers whose units are too small to fully occupy their

time and a necessary complement of equipment so as to result in an average return. Such farmers face difficulties in operation even without a debt.

"On the other hand, it should be recognized that in comparison with 1933, there is generally increased stability in farming. This has resulted from the many technological improvements in farming, the acceptance of better farming practices, increased irrigation, diversification, soil conservation practices, commodity price stabilization programs, etc.

"Furthermore, the increased volume of loans outstanding by the land banks has brought with it no significant increase in delinquencies. Even in the drouth areas, the delinquencies are mere fractions of what they were in the 30's. Other lenders generally report a similar favorable delinquency situation."

Mr. Maxwell pointed out that this year is the 40th anniversary of the Federal Land Bank system, one of the oldest of the government agencies set up during this century. During this period it has made loans of more than \$6 billion to 1,500,000 farmers. The Federal Land Bank system is one of the few agencies which the Hoover Commission has given a full recommendation.

Looking ahead, Mr. Maxwell sees an increasing number of changes in the farm economy.

"We think that the federal land banks, as well as other lenders, will be called upon to provide additional credit and that there may always be a larger farm mortgage debt than in the past. First, there is a greater capital need. Today a farmer has much more invested in his farm than the farmer of 15 or 20 years ago. The investment per agricultural worker has trebled in the last 15 years. It takes twice as much investment per agricultural worker as it does per industrial worker. It is just reasonable that with the increased capital need on the farms, there is bound to be a greater need for credit. Second, agriculture is in the midst of some further very significant changes. By 1980 farm production may increase 39 per cent. During the same period, the number of farms would decline from 4,800,000 to 4,300,000 and the farm population from 22 million to 17 million. A very important factor in this increased production on fewer farms and by fewer farm folks will be the increased use of machines, improved building layout, better breeds of livestock, etc. Much of the capital for these changes will be provided by credit secured by the farms themselves."

At the panel discussion, which followed Mr. Maxwell's talk, Carl M. Adams, superintendent of farm loans of Equitable Life Insurance Company of Iowa, Des Moines, said that farm loan delinquencies are few and far between.

"Farm loan delinquencies are so few and so scattered that they create no definable pattern. Even in the drouth areas of the South great plains area the delinquencies and foreclosures are surprisingly low in number. However some of the lenders believe that some borrowers in that area are approaching the breaking point and that another year without rain will produce some delinquency troubles," he said.

"The up-market, the continuance of a high level of prices and employment have helped tremendously, but we must give much credit to the improved methods and efficiency of not only the borrowers, but also the correspondents, and the lenders and their fieldmen."

Where Is Money Coming from Will Be on the MBA N.Y. Conference Agenda

Probably the prime economic question confronting the nation at this moment—how to develop the savings needed for the continued economic expansion of the country — will be subject of an exhaustive review at MBA's forthcoming Eastern Mortgage Conference in New York April 15 and 16.

Robert Morgan

R. M. Brown, Jr.

M. C. Babcock

O. G. Gresham

The Tuesday morning session April 16 will feature a discussion of this problem by some of the outstanding authorities in the country sitting as a panel group with MBA General Counsel Samuel E. Neel presiding.

Specific topics, and the speakers who will handle each one, are

"Problems of Growth in the Money Supply" by Dr. Paul W. McCracken, member, Council of Economic Advisers, Washington, D. C.

"Fostering and Channeling Savings for Economic Growth" by Dr. Grover W. Ensley, executive director, The Joint Committee on the Economic Report, Washington, D. C.

"Business Implications of Government Economic Policy" by Dr. Emerson P. Schmidt, Director of Economic Research, Chamber of Commerce of the United States, Washington, D. C.

The session will conclude with an address by J. Stanley Baughman, president, Federal National Mortgage Association, Washington, D. C., on "FNMA's Role in Today's Mortgage Market."

The Eastern Mortgage Conference is traditionally the event on the MBA schedule which attracts the largest investor interest, a fact of more than usual importance at this time. The meeting this year has been reduced to two full sessions, both morning,

with the idea that many MBA members attending would like ample time for developing and renewing contacts while they are in the East.

Robert M. Morgan, vice president and treasurer, The Boston Five Cents Savings Bank, Boston, is chairman of the Eastern Conference and will appear on the opening session with Walter C. Nelson, chairman of the MBA Clinic Committee and president, Eberhardt Company, Minneapolis.

MBA President John F. Austin, Jr., will open with a talk on "Prospective Developments in the Mortgage Market."

"The Mortgage Banker Through the Eyes of Bonding and Supervisory Authorities" will be the subject of two addresses to follow, one by Ernest E. Rutgers, vice president and treasurer, Eleford & Rutgers, Inc., New York, and the other by Bernard V. Dill, director of savings banks examination, Banking Department of Massachusetts.

The session will close with a report of a highly interesting bit of research, "The Postwar Rise of Mortgage Companies", by Saul B. Klaman, National Bureau of Economic Research, Inc., Washington, D. C.

The concluding feature promises to be as interesting as anything presented on an MBA program in recent years—a panel discussion of Investor-Mortgage Banker Relationships as the Industry Comes of Age, with Mr. Morgan as the moderator.

Panel participants will include R. Manning Brown, Jr., vice president, New York Life Insurance Company, New York; Miles C. Babcock, vice president and mortgage officer, Teachers Insurance and Annuity Association of America, New York; George J. Bender, vice president, The Brooklyn Savings Bank, Brooklyn, New York; John H. Hammett, executive vice president, American Irving Savings Bank, New York; Walter C. Nelson, president, Eberhardt Company, Minneapolis and O. G. Gresham, Gresham & Company, Birmingham.

That afternoon will be devoted to a luncheon and meeting of the Young Men's Activities Committee.

Phoenix Clinic Is One That Merits Most Careful Member Consideration

Although it is but one of five Conferences and Clinics on MBA's 1957 schedule, the Phoenix meeting coming up April 25 through 27—because of the Association's past experience in this capital of the Valley of the Sun—has special significance in our program this year. This Southwest area has experienced what is probably the most remarkable growth of any area of the country during this generation—as Ralph Bruneau sets forth in the pages which follow. This year the Association is going back to Phoenix for its initial Mortgage Clinic in 1957. It is a three-day meeting, with morning sessions and the afternoons and evenings set aside for first hand examination of one of the most colorful sections of the United States.

At the opening session Thursday morning, April 25, members will hear some introductory remarks by Roy F. Flesh, president, Arizona MBA, and executive vice president, Western Mortgages, Inc., Phoenix, Jack Williams, Mayor of Phoenix and Walter C. Nelson, chairman of the MBA Clinic Committee and president, Eberhardt Company, Minneapolis.

After that the program runs as follows:

"Prospective Developments in the Mortgage Market" by MBA President John F. Austin, Jr.

"Development of the Southwest and the Part It Plays in the Economy of the United States" by U. S. Sen. Barry Goldwater.

"Electronic Development and the Part It Plays in the Economy of the Southwest" by Major General Samuel R. Brentnall, vice president and assistant general manager, Military Electronics Division, Motorola, Inc., Phoenix; and

"The Commercial Banker in the Field of Mortgage Banking" by Joseph R. Jones, vice president, Security-First National Bank of Los Angeles.

In the second session Friday morning Ralph E. Bruneau, vice president, The Valley National Bank of Phoenix, will preside and the program includes these addresses:

"Pension and Profit Sharing Funds" by William A. Marcus, senior vice president, American Trust Company, San Francisco; and

"The Washington Scene"' by MBA general counsel Samuel E. Neel.

After that the Clinic will make an appraisal of "How Housing and Credit Look for 1957," with these authorities speaking on various aspects of what is ahead:


Norman P. Mason


T. J. Sweeney


F. D. Richards


W. A. Marcus


Walter Nelson


Lon Worth Crow

Norman P. Mason, FHA Commissioner, Washington;

Thomas J. Sweeney, director, VA Loan Guaranty Service, Washington;

J. Stanley Baughman, president, Federal National Mortgage Association, Washington;

Winfield W. Riefler, assistant to the chairman, Board of Governors of The Federal Reserve System, Washington.

That afternoon — as is true this year at all MBA meetings — the Young Men's Activities Committee will sponsor a program. It will be a round table discussion pertaining to future possibilities for young men in mortgage banking, the outlook for relaxation of FHA and VA terms, etc. John Blundell, vice president of Western American Mortgage Co., Phoenix, is chairman of the meeting and the panel group includes Rush C. Hinsdale, Jr., vice chairman; Robert P. Hackstaff; Robert B. Wilson and R. G. Surkamp.

At the third and final session Saturday morning Carroll J. Pierce, president, Standard Mortgage Company, Phoenix, will preside and members will hear these two opening addresses: "Obligation of Correspondent to Investor" by Harvey E. Handford, treasurer, Bankers Life Company, Des Moines, and "Obligation of Investor to Correspondent" by Franklin D. Richards, president, Richards-Woodbury Mortgage Corporation, Salt Lake City.

After that members will hear a panel discussion, moderated by John C. Hall, MBA vice president and president, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, on "Making the Most of Your Most Valuable Business Asset—Your Personnel." Participants will include:

Lon Worth Crow, Jr., president, Lon Worth Crow Company, Miami;

Louis R. Freese, vice president, Kassler & Co., Denver; and

William A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia.

The Clinic will wind up with a stimulating talk by Herb Leggett, vice president, The Valley National Bank of Phoenix on "The Wild Blue Yonder, or Who Is Doing What To Whom?" James B. Shea, assistant vice president of The Valley National Bank of Phoenix, will preside.

That's the program—but that's not all there is to the Phoenix Clinic by any means. Interspersed with this three-day meeting is a heavy schedule of social activities and entertainment which include:

A golf tournament at the Arizona Country Club Thursday as well as a reception by the Phoenix banks.

On Friday a shopping tour and luncheon for the ladies in Scottsdale ("The West's Most Western Town") as well as another golf tournament at Paradise Valley Country Club, a reception by the Land Title Association of Arizona and a buffet dinner and dance.

On Saturday there will be a luncheon and style show for the ladies at Paradise Inn, a tour of the Valley of the Sun, a reception by the Arizona MBA and a barbecue steak dinner under the stars, chuckwagon style.

Sen. Knowland and Walter Williams to Speak at California MBA Convention April 3 to 5

One of the most interesting meetings being held in the mortgage field this year is the 1957 annual convention of the California MBA scheduled for Palm Springs, April 3-5. This is one of the local meetings being planned and executed on the same comprehensive scale as the MBA national events. The list of speakers is impressive and includes an address by Senator William F. Knowland. Others are

T. S. Burnett, president, Pacific Mutual Life Insurance Company, speaking on "The Influence of Interest Rates on the Mortgage Loan Portfolio of a Life Insurance Company.";

MBA President John F. Austin, Jr., speaking on the national mortgage picture;

W. Walter Williams, Under Secretary of Commerce, on "The Economy of California From a Federal Viewpoint.";

William A. Marcus, senior vice president, American Trust Company, on "The Future of Mortgage Banking";

Dale M. Thompson, president, City Bond and Mortgage Company on "The Case for the Mortgage Banker";

Frank R. Shugrue, second vice president, Bankers Life Insurance Company of Nebraska, on "A Principal's View of General Mortgage Practices".

California Speakers

W. Walter Williams

Frank Shugrue

Among the other interesting features planned is a panel discussion of California Mortgage Problems Today—Suggested Solutions, with Linden L. D. Stark, vice president, Crocker-Anglo National Bank, moderating and panel members including Clair Sutherland, John J. Lyman and Maurice Evans.

All sorts of entertainment activities are being provided for those who attend, including golf tournaments, every sport, with special events for the ladies.

New Members in MBA

CONNECTICUT, *Hartford:* The Connecticut Bank & Trust Co., E. J. Lehan, assistant vice president; *Stamford:* The Security Bank and Trust Company.

FLORIDA, *Jacksonville:* Independent Life and Accident Insurance Company, G. Howard Bryan, vice president, in charge of mortgages.

IDAHO, *Idaho Falls:* Mortgage-Insurance Corporation, Horace Gesas, office manager.

ILLINOIS, *Chicago:* Lawrence Tavalin,

LOUISIANA, *Baton Rouge:* Gulf Coast Investment Corporation, Lawrence W. Sutton, vice president.

MAINE, *Portland:* Maine Savings Bank, B. G. Nichols, treasurer.

MASSACHUSETTS, *Charlestown:* Charlestown Savings Bank, Norman F. Barrett, president.

MICHIGAN, *Detroit:* Charles L. Levin; Herman Schonberg; *Grand Rapids:* Advance Mortgage Corporation, Ira Morrison, manager; *Holland:* First National Bank of Holland, Henry S. Maentz, president.

MISSOURI, *Wellston:* First National Bank of Wellston, M. H. Klingler, vice president.

TEXAS, *El Paso:* Gulf Coast Investment Corporation, Lawrence W. Sutton, vice president; *San Antonio:* Gulf Coast Investment Corporation, Mrs. Frances Woody, assistant secretary.

WISCONSIN, *Milwaukee:* Advance Mortgage Corporation, I. Weiss, manager.

PHOENIX . . . *fabulous capital of the Valley of the Sun where MBA members will soon be gathering again and will find that it is still growing--"like Topsy, but not Turvy."*

By RALPH E. BRUNEAU
Vice President, Mortgage Loan Department, Valley National Bank, Phoenix

"THE WAY this area is growing, I wouldn't be surprised to find stoplights on Camelback Road all the way out to Scottsdale Road in the next few years!"

The speaker was Wally Moir, the time April, 1954, and the locale MBA's Southwestern Clinic in Phoenix.

It was the first time a regional MBA meeting had been held in Arizona and, confronted head on with the Valley of the Sun's dramatic growth, Moir and several other speakers gave voice to glowing predictions about the area's continued expansion, some of them so flattering that they brought questioning smiles to the faces of a few of the more conservative-minded out-of-state bankers in attendance.


Ralph E. Bruneau

But when Wally, who became MBA President the following year, returns to Phoenix next month for the second Southwestern Mortgage Clinic hosted by Arizona's capital city, he'll find that Camelback Road *is* dotted with stoplights all the way to Scottsdale Road—and, for that matter, so are Indian School, Thomas and McDowell, the other major thoroughfares leading from Phoenix to the "West's most Western Town."

Wally may have a little difficulty in recognizing Camelback Road, of course. Since he saw it last three years ago, several smart shopping centers, two of them multi-million dollar affairs, have sprung into being on the scenic section of highway beginning with Central Avenue and ending at Scottsdale Road.

Several more resorts and several score additional handsome residences now flank the same expanse, and even more striking evidence of growth will be found at its Scottsdale terminal.

There, new homes built within the past three years are counted by the hundreds and the town's shops, offices and resorts have easily doubled in number. Among the latter are the Safari and Valley Ho Hotels, both million dollar havens of relaxation.

Lloyd Mangrum, along with several other of the nation's leading golf pros, was a guest at the Valley Ho while participating in the 1957 Phoenix Open. Interviewed by a radio commentator regarding the area's growth since the 1956 Open, Mangrum shook his head and replied:

"Where else but in the Valley of the Sun can one find such beautiful buildings springing up overnight?"

The interviewer, a loyal Phoenician, gleefully reminded his radio audience that "Mr. Mangrum is a resident of southern California!"

Exuberant Phoenix is becoming accustomed to having exuberant California praise its expansion. A year ago, for example, the Los Angeles Chamber of Commerce issued a widely distributed "Arizona Report" in which, referring particularly to the Phoenix area, it declared:

"Most important for the future are the foresight and desire of Arizonans to build. We found ample evidence of this type of thought and leadership; we feel sure of its continued growth and development, as a result."

Apparently anxious that such confidence not be misplaced, Phoenix by August of last year had racked up more building permit volume than it did in 1955—the all-time high for construction activity up to then.

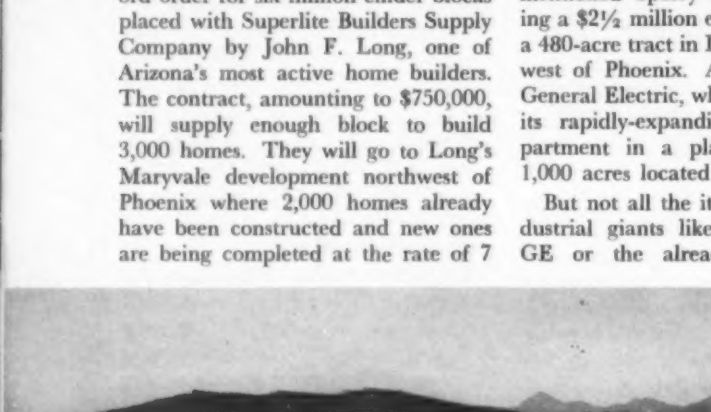
The same is true for the surrounding communities which, with Phoenix, make up Maricopa County. Reported the February 10, 1957 issue of the Arizona Sunday Republic:

"Construction maintained a dizzy pace in Maricopa County during Jan-

uary. Building permits for the area *outside* of the incorporated districts were $2 million ahead of January, 1956."

The Republic that day contained numerous other items attesting to the Valley's dynamic growth pattern in recent years. One referred to a "record order for six million cinder blocks placed with Superlite Builders Supply Company by John F. Long, one of Arizona's most active home builders. The contract, amounting to $750,000, will supply enough block to build 3,000 homes. They will go to Long's Maryvale development northwest of Phoenix where 2,000 homes already have been constructed and new ones are being completed at the rate of 7 to 9 a day."

New Motorola plant in Phoenix. As a result of three major plants like this in the area, the electronics firm is now the world's largest manufacturer of transistors.



Once considered almost valueless, desert areas like this now provide scenic backdrops for the thousands of ranchhouse homes being built in the Valley of the Sun.

Another noted the opening of a supermarket "two and a half times bigger than its predecessor on the same site. A 60,000 square foot parking lot is included."

A third referred to the new $2 million shopping center of Camelback Road. (It could have added that this land formerly was part of a prize livestock ranch where Wally Moir and several other MBA delegates paused in 1954 to admire hundreds of white face Herefords grazing along the Camelback end of the ranch.)

In the Republic's business section that day, several news articles referred to the Valley's industrial growth. One mentioned Sperry Rand, now building a $2½ million electronics plant on a 480-acre tract in Deer Valley, northwest of Phoenix. Another concerned General Electric, which plans to house its rapidly-expanding computer department in a plant developed on 1,000 acres located in the same area.

But not all the items dealt with industrial giants like Sperry Rand or GE or the already Phoenix-based firms like Motorola, Reynolds Metals, Goodyear Aircraft or AiResearch—all of which have announced major expansion programs in recent months.

One, for example, concerned the Conner Tool and Manufacturing Company. Conner is a firm little known outside of Arizona, hardly surprising inasmuch as it came into being only five years ago with two employees and only 2,500 square feet of rented space. "Today," as the Republic noted, "it lists 53 persons on its employee roster; it's housed in its own 15,000 foot modern building, and its annual business is upwards of half a million dollars."

The mushrooming growth of firms like Conner Tool and Manufacturing Company are, of course, a stone-and-steel reflection of the equally burgeoning growth of the electronics industry in Phoenix and other parts of Arizona during the past two or three years.

Electronics is sparking the state's remarkable industrial development—an expansion which caused a *Newsweek* correspondent to write last spring: "Tucked away in the most barren corner of the U. S., the youngest state of the Union leads all others, percentage-wise, in postwar industrial growth."

Like many others that have appeared in national publications in recent months, it was a glowing account of the state's economic progress, although some Arizonans wondered how the fifth largest state in the Union could be "tucked away" any place.

And there were those, too, who questioned the expression—"the most barren corner." There's little that's barren in Arizona these days, be it people or landscape, they maintain. Even the so-called desert areas are green more often than not.

Nevertheless, the *Newsweek* writer was correct in stressing the importance of Arizona's industrial growth in recent years. For the truth is that Arizona has undergone a magical transformation from a semi-arid agricultural type of economy to what today is a diversified and well-balanced economy in which manufacturing, mining, agriculture and tourism are all major contributors.

This economic balance is a salient reason for the state's swelling population growth (the second fastest in the nation), some observers believe. Employment offers by such new firms as Sperry Rand and GE will attract an even larger percentage of population increase, they contend.

Conversely, other observers maintain that Arizona's influx of newcomers, with its ever-growing labor market, is encouraging industry to grow at an ever-increasing rate. The which-came-first: the-chicken-or-the-

egg argument is being repeated here with different components but the same intensity!

The point is: people *are* continuing to pour into the Valley of the Sun—at the rate of 25,000 to 30,000 newcomers a year. Why? All the old reasons continue to hold true: Benign sunshine, breathtaking scenery and a friendly, informal way of life that appeal greatly both to health and recreation seekers.

But other and newer factors also deserve mention: industry's incredible growth, which has increased ten-fold since 1941 and which now is running at an output of $400 million a year—a $100 million increase since the last MBA clinic here; the creation of an active state development board; an increase in Federal government services and installations.

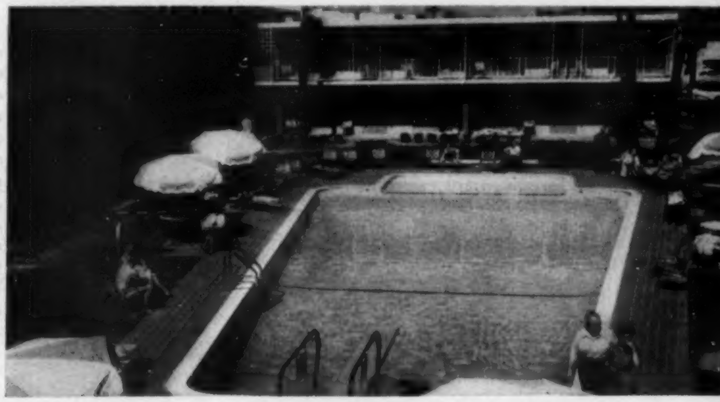
And not to be overlooked are the stepped-up promotional mailings and activities of the state's banks, utilities, press, railroads and chambers of commerce; more and better air-conditioning to temper the sun's perennial presence, and the scores of magazine and newspaper articles that have burst into print in recent years with superlative-filled accounts of the nation's "most flourishing frontier."

Typical of these was an article last December titled "The Phenomenon They Call Phoenix" which appeared in "Inside," a monthly dealer magazine of national circulation published by the Carrier Corporation.

"In 20 years the population of Phoenix will be over two million," it predicted without reservation. "Over 320,000 persons now receive their mail through the Phoenix Post Office. Today, metropolitan Phoenix is one-half the size of metropolitan Pittsburgh and is growing 130 times as fast."

The article appeared last December, as noted. In February of this year, the Phoenix City Council annexed another 2½ square mile section to the northeast. It brought the city's area to 39 square miles and its population to 180,000 within the city limits. The greater Phoenix population is approximately twice that amount.

Phoenix' growth is like that of Topsy — but there's nothing turvy about it. As of last October, a count showed there are 33 active boards and commissions with a total of 152 individual members who meet at regular intervals to consider specialized phases of city business and make recommendations to the council. The aforementioned annexation came as the result of the unanimous recommendation of the Phoenix Annexation Commission, a group of civic-minded business and industrial leaders who give of their time and talents without pay so that the city's growth can be orderly and fair to all dwellers.



Among the several luxurious hotels and motels built in Phoenix in the past three years is the $5 million Sahara Hotel, shown at right. It covers an entire city block in the heart of downtown Phoenix.

Supplementing these municipal groups are a number of chamber of commerce and county citizen-manned commissions who resolve problems ranging from zoning and sewers to slum clearance and the behavior of teenagers at the public library.

Jokake Inn, where many MBA members will be staying, is one of the famed Valley of the Sun resorts nestling at the foot of Camelback Mountain.

Recently, at one of a "Planning in Our Valley" public forums sponsored by several of these groups, the opinion was advanced that women's shorts, not parking shortages, are the real reason shoppers desert the downtown district in favor of suburban retail centers. The panelist opined that women would rather shop at suburban centers in their shorts and slacks than don dresses for a trip downtown!

The ferment of such refreshing thinking finds solid substantiation in all sorts of apparently unrelated statistical data. Dun & Bradstreet recently announced, for example, that Phoenix for the first time has been listed as one of the nation's key industrial markets.

And, referring to the city's business growth, it noted that in 1956 Phoenix listed 5,314 manufacturers, wholesalers and retailers — compared with 3,527 in 1955, a whopping 51 per cent increase.

Questioned about this by the press, a local businessman member of one of the city's "growth commissions" replied: "Yes, we've been keeping a close watch on this growth—and have been planning accordingly."

Then he asked the newspaperman: "Do you know that a new industry employing 200 people supports 393 homes, 320 cars, 33 stores and shops, $750,000 in retail sales, 24 professional men, 6,600 acres of farm products, 18 teachers, 22 schoolrooms, $2,500,000 tax ratables, $1,500,000 in life insur-

(Continued on page 58)

Texas MBA 41st Annual Convention Set for San Antonio, President Austin Honor Guest

A Texas welcome awaits visitors to the 41st Texas MBA Convention in San Antonio, May 8, 9, 10. The three day session will honor MBA President John F. Austin, Jr. who hails from Houston. President Austin will be honored with a reception, May 8th in the historic Menger Hotel.

Leading national authorities will speak on the problem of money as viewed from the standpoint of savings and commercial banks, insurance companies and pension trust executives.

This Southern city, mingling the flavor of the Old West with the color and romance of Old Mexico, will roll out the "Welcome You'all" carpet of hospitality.

According to Ames Gill, president, the meeting will balance informative discussions with nationally known entertainment including Jan Garber and his orchestra.

Money for Texas

"Money for the Texas Mortgage Market" will be a highlight subject of the convention on Friday morning, with leading executives as speakers.

The panel discussion will include Richard A. Booth, president, Springfield Institution for Savings, Springfield, Mass.; H. A. Yoars, vice president, The First National City Bank, New York; King Upton, vice president, The First National Bank of Boston; and Thomas A. Bradshaw, president, Provident Mutual Life Insurance Company, Philadelphia.

The Friday morning panel will be moderated by Jimmie Ansley of D. Ansley Company, San Antonio.

A feature of the convention will be a panel of government executives dealing in money problems of interest to mortgage bankers. The discussion panel will be moderated by Samuel E. Neel, MBA General Counsel. Speakers include Charles E. Sigety, Deputy FHA Commissioner; Thomas J. Sweeney, Director, VA Loan Guaranty Service; and J. S. Baughman, president, Federal National Mortgage Association.

The government panel will be held on Friday afternoon at the Gunter Hotel, which is the convention headquarters hotel.

Besides the business meetings, there will be plenty of time for old-fashioned fun—Texas style. On Thursday evening, a dinner-dance will be held at the Seven Oaks Country Club in honor of the new officers and directors of TMBA.

Historic and colorful San Antonio will be the host city for the 41st meeting of the largest local mortgage group.

Highlight of the evening's festivities will be the presentation of the annual J. E. Foster Award by Ancel Green of Waco, last year's recipient.

The award, which is donated by J. E. Foster & Son, Inc., in honor of J. E. Foster, Sr., is made to the TMBA member who has rendered the most outstanding service for the mortgage profession during the year.

A real evening of fun for conventioneers is promised for the Friday evening "Poor People of Texas" costume party which will be held at the Seven Oaks Country Club.

According to the committee in charge, any type of rags to riches costume is appropriate and they warn conventioneers who fail to bring costumes that they would be taken care of in Texas style at the door.

Other interesting convention highlights will be a Thursday afternoon program planned by the Young Men's group of TMBA.

Officers of TMBA are president, Ames L. Gill, Richard Gill Company, San Antonio; vice president, James J. Teeling, Teeling Mortgage Company, Dallas; secretary-treasurer, J. Duval West, Jones-West Mortgage Company, Dallas.

Chairman of the convention arrangements is James J. Teeling who is being assisted by a San Antonio committee headed by James E. Klaver, J. D. Ansley, A. H. Cadwallader, Jr. and Marvin Watson.

Other committee members include Mr. and Mrs. A. H. Cadwallader III, Mr. and Mrs. A. C. McDavid, Jr., Mr. and Mrs. Marvin Watson, Mr. and Mrs. J. A. Langridge, Mr. and Mrs. Jack Schleuning, Mr. and Mrs. J. D. Ansley, Mrs. Lyle Plant, Mrs. James E. Klaver, William Lemke, William Hizar, Bob Schupbach, John Webbels.

The Best in Entertainment

A special program of entertainment and events is being planned by the committee for the ladies including a luncheon in the Colonial Room of the Menger Hotel.

Many side trips are available to conventioneers including the nearby border towns of Old Mexico and quick air-flights to Monterrey, Mexico City and gay Acapulco.

Few cities can compare with San Antonio for historic and scenic attractions.

The famed Alamo is known throughout the nation as the Cradle of Texas Liberty and equally interesting are the four Spanish Colonial Missions which still stand in a half-circle around the outskirts. Mission San Jose, San Juan Capistrano, Conception and Espada were built two centuries ago by the Franciscans to educate the Indians.

A short two hours from historic San Antonio are the border cities of Mexico with their colorful bullfights, native celebrations and exciting night life—providing week-end jaunts that are memorable.

Other interesting side trips can be made from San Antonio to the nationally famous coastal points of Corpus Christi, Aransas Pass, Rockport, Brownsville, Port Isabel, Port Lavaca and the newest luxury resort area, Padre Island.

The Trust Fund

The initial request for funds to begin the work of the Research and Educational Trust Fund of the Mortgage Bankers Association of America met with a generous response. Now the planning and effort can proceed with full assurance of success. A new chapter in the annals of mortgage banking is opening. The achievements will accrue to the entire industry.

As a result of the successful conclusion of its initial campaign for funds, the Research and Educational Trust Fund of the Mortgage Bankers Association of America is now ready to embark on its announced program which, among other things, will include an expansion of educational opportunities available in the field of mortgage banking, as well as research projects to benefit the entire industry. As a result of the campaign just concluded, nearly 350 MBA members have contributed nearly $90,000 in cash and pledges to the Fund. Nearly $25,000 had been donated before the drive, and contributions and pledges made during the solicitation accounted for the remainder. Contributions originated in practically every state and of those contributing, 283 were mortgage companies, 38 were banks, 7 were life insurance companies and 15 were title companies and miscellaneous institutions.

Thus, the Fund is now in a position to begin the realization of the objectives set for it more than three years ago when organized. Primarily it will be an effort to accomplish through a charitable trust many things not heretofore possible. The scope of activities which the Fund may undertake is almost unlimited. One sphere of operations is sure to be an expansion of educational programs available to young people contemplating careers in the field of mortgage banking. The Association's own educational program which has culminated in the School of Mortgage Banking has been an outstanding success among similar efforts by associations and industries, but it is believed that there are various auxiliary objectives in this general field which the Fund is uniquely qualified to seek. Indeed, the principal achievement so far of the Trust Fund—and one undertaken before the 1956 campaign for funds—was the Educators Conferences at the University of Michigan and the University of Colorado.

It is in the field of research, however, where the Trust Fund is presented with practically unlimited opportunities. The mortgage banking industry, by virtue of the fact that it is almost an entirely new industry as a result of events of the past quarter-century, is woefully lacking in statistical information to guide and explain many of its most basic operations. In this field the Fund is confronted with numerous challenging tasks.

The drive for funds was the work of a well-organized team headed by E. R. Haley, president of the General Mortgage Corporation of Iowa, who directed the efforts of more than 100 regional team captains—and, as an effort, it has been an excellent example of the type of mutual cooperation which is the basis for good organization. The primary objective was to raise sufficient funds for the Trust Fund to begin its work in earnest. It does not mean that no further efforts will be made—indeed, members may continue to make contributions, all of which will be welcome and will further assist in the work to be done.

The 12 team captains who directed the effort, and their regions are: Region 1: C. Armel Nutter, Camden, New Jersey; Region 2: Frank J. Bell, Washington, D. C.; Region 3: C. Douglas Wilson, Greenville, South Carolina; Region 4: Edward F. Lambrecht, Detroit; Region 5: Frank P. Flynn, Jr., Lafayette, Indiana, Region 6: James A. King, Birmingham;

Also Region 7: Robert L. Beal, Des Moines; Region 8: D. R. Beaumont, Chicago; Region 9: Homer C. Bastian, Wichita; Region 10: Everett Mattson, Houston; Region 11: Kenneth J. Morford, Seattle; Region 12: R. C. Larson, Beverly Hills, California.

The active direction of the drive was under Lewis O. Kerwood, MBA Director of Education and Research who is also secretary of the Fund.

Of the contributions made to the Trust Fund, one is of unusual significance. It was a contribution of $25,000 from the T. J. Bettes Company in Houston, made for the express purpose of establishing the T. J. Bettes Memorial Fund to be administered by the Research and Educational Trust Fund. The contribution is a living testimonial to the late T. J. Bettes, who founded his firm in Houston and which later grew into the largest mortgage banking company in the country. Mr. Bettes was one of the outstanding mortgage originators during his lifetime and his widow, Mrs. Ruth Bettes, now serves as Chairman of the Board of the company.

MBA's Trust Committee administering the Research and Educational Trust Fund is headed by Byron T. Shutz, Kansas City, Missouri, Chairman, and includes Mrs. Ruth Bettes, Houston; William A. Clarke, Philadelphia; Peter V. Cloke, Lawrence G. Gillam and Harry Held, New York; Guy T. O. Hollyday, Baltimore; Robert H. Pease, Chicago; John F. Austin, Jr., Houston; and Lindell Peterson, Chicago.

New Officers North Carolina MBA

» AT N. C. MBA HELM: The new officers of the North Carolina MBA, above, seated left to right, John S. Williams, secretary and treasurer; Carlyle McDowell, president; Ike C. Lowe, vice president, and, standing, left to right, Marion G. Follin, director; Edwin C. Rochelle, director and N. G. Speir, past president.

St. Louis MBA Gives Scholarships

The St. Louis MBA has established two scholarships in real estate at Washington University — Real Estate Titles and Conveyancing taught by McCune Gill and Real Estate Management by Ralph D'Oench.

Left to right: O. J. Brichler, immediate past president, St. Louis MBA; Richard Louis Hencke, scholarship winner, General American Life Insurance Co.; Harold Lesher Studt, scholarship winner, Haas & Alt; Assistant Dean John W. Bowyer, School of Business, and L. L. Seeman, instructor of the class in Real Estate Financing and president, Mortgage Syndicate, Inc.

Karl W. Kumler Is New Head of Columbus MBA

Karl W. Kumler, manager of the Peoples Mortgage Co., has been elected president of the Columbus MBA. Mr. Kumler was formerly FHA District Director. Other officers of the Association are David Morgan of the mortgage loan department, Ohio State Life Insurance Co., vice president, and Charles Dozer of Scioto Savings Association, secretary-treasurer.

In New Post

Joseph Weintraub, chairman of the board of directors, announced that John Ely Weatherford has been named vice president of the American Title and Insurance Company, in charge of the national title division. The Miami, Florida based company is now operating in 25 states and in Puerto Rico and the Virgin Islands.

Before joining American Title and Insurance Company, Mr. Weatherford was associated with the Title Insurance Corporation of St. Louis, and held the office of vice president and secretary. His contacts in the title field are wide and are expected to be of material assistance in the expansion program initiated by American Title.

PHOENIX

(Continued from page 55)

ance, $1 million in bank deposits and 1,400 in population?"

The reporter confessed he didn't but he added in good grace: "As a parent and homeowner myself, I have been deeply impressed not only by the verve of the Valley's growth but especially by the fact that it has been accomplished in such an orderly manner and without losing the friendly, informal way of life that brought me to Phoenix several years ago from the mid-West."

And with that salute from a member of the hard-to-stampede fourth estate, I'd like to conclude this article. It sums up what you'll shortly be discovering for yourself: Phoenix has been growing in a topsy but not turvy manner but, most important, it still retains that delightful hospitality in welcoming newcomers and visitors that impressed MBA members three years ago.

We are looking forward to being your host again!

Vaughn Cook S. Calif. MBA Head

Vaughn J. Cook has been installed as newly-elected president of the Southern California MBA. Cook succeeds retiring president Gordon Stimson. John J. Lyman was named vice president and Gordon Calder secretary-treasurer. New directors are Gordon Stimson, Frank Ely, Guy B. Mize, Robert Sutro, Warren Tenney, Richard Howlett and William R. Schroll.

Cook, former SCMBA vice president, is a graduate of the School of Commerce, Drake University, Des Moines. During World War II he served in the Army Air Corp with the rank of major. He is a partner in the Beverly Hills Securities Company. He is a member of the board of directors of the California MBA and a member of the educational committee of MBA.

Above, Mr. Cook (left) receives the congratulations of MBA President John F. Austin, Jr., at the SCMBA annual dinner in Los Angeles. President Austin was the guest speaker.

J. R. Walsh in New Post at Lawyers Title

John R. Walsh has been named manager of the newly-created Commercial and Industrial Department of Lawyers Title Insurance Corporation, Richmond. Walsh has been with Lawyers Title for 16 years starting as a title attorney in the Newark Branch. Later he held the positions of assistant title officer and assistant secretary. Since moving to Richmond in 1948, he has devoted most of his time to field work and is well-known in financial and title circles throughout the country. He served in the Navy for 3 years during the war and attained the rank of Lieutenant Commander. The new Home Office Department has been organized by Mr. Walsh to expedite the handling and to assist in the solution of the special title problems encountered by commercial and industrial companies in their expansion programs.

John R. Walsh

The Lomas and Nettleton Company is celebrating its 60th Anniversary. Its business was established in 1894 by **John E. Lomas** in a small office in New Haven, Conn., just large enough for a desk and one clerk.

In 1900, larger quarters were taken. **Edward L. Nettleton** entered the business, forming the partnership of Lomas & Nettleton with a capital of $3,000. Three years later it again became necessary to seek larger quarters.

In 1917, continuing growth of the business necessitated incorporation, The Lomas & Nettleton Company succeeding the partnership of Lomas & Nettleton.

In 1920, it once more became necessary to increase the office space occupied. Property at the corner of Orange and Court Streets in New Haven was purchased and a building erected.

The Company now maintains its headquarters office in New Haven with branches in Hartford, Stamford, Bristol, Connecticut and Los Angeles. **Donald E. Nettleton** is president.

Harding W. Maxwell, assistant treasurer and office manager of the Western Life Insurance Company, St. Louis, has been elected a director of the Company.

Peter M. Lynch, Jr. has been named vice president in charge of mortgage loans, and elected to the board of directors of D. L. Stokes & Company, Inc., Atlanta, it was announced by James E. Stokes, executive vice president. Mr. Lynch was formerly assistant manager of the mortgage loan department. He was born in Atlanta and graduated with the degrees of Bachelor of Arts and Doctor of Law from Emory University in Atlanta. He is a member of the Georgia Bar Association.

Peter M. Lynch

Robert B. DeWitt has joined the East Bay Mortgage Service, Inc., in Oakland.

EXPERIENCED MORTGAGE EXECUTIVE

One of the largest and oldest mortgage companies in Chicago needs the services of an experienced man to analyze debenture issues, purchase-lease deals, and private placements for insurance companies and other corporate investors. This is a top-level executive post offering an unusually fine opportunity. Applicants must be engaged in similar work. Salary and bonus arrangement. Please state experience and qualifications. Replies will be held in confidence. **Write Box 424, The Mortgage Banker, 111 West Washington St., Chicago 2, Ill.**

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Experienced mortgage man with following among Eastern lending institutions to represent California mortgage company in the sale of VA, FHA and conventional mortgages. Compensation on a commission basis. Opportunity for large earnings and permanent connection. Please reply in full detail to Box 421, The Mortgage Banker, 111 West Washington St., Chicago 2, Ill.

PERSONNEL

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MORTGAGE MAN

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Long-established, highly-rated, progressive So. Calif. Company has unusual opening for man thoroughly conversant with processing CONVENTIONAL loans for submission to lenders. If you are ambitious to move ahead and have sound ability, we invite your inquiry. Write Box 423.

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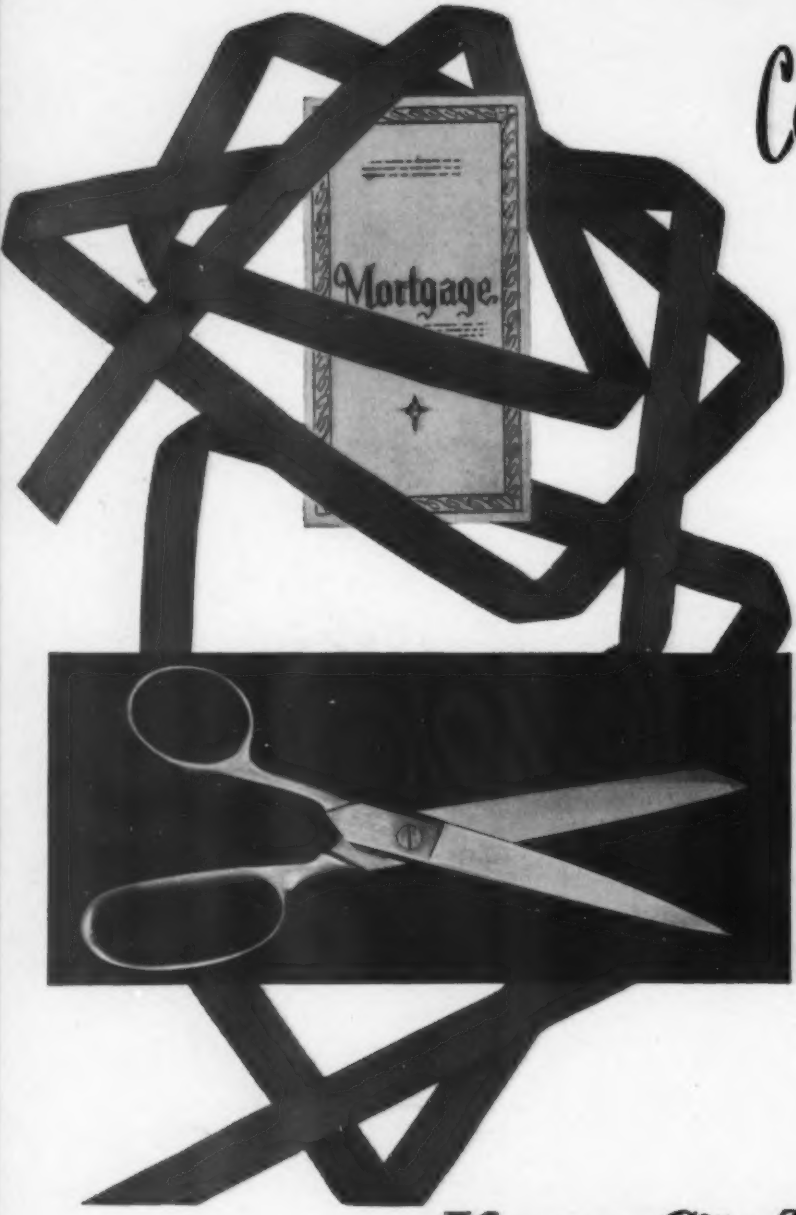

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